

Interest on the Series 2020 Bonds is not excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS" for a brief description of certain federal income tax consequences to certain recipients of interest on the Series 2020 Bonds. The Series 2020 Bonds and the interest thereon will be exempt from all State, county, municipal and school district and other taxes or assessments imposed within the State of South Carolina, except estate, transfer and certain franchise taxes.

\$46,200,000

**SPARTANBURG SANITARY SEWER DISTRICT, SOUTH CAROLINA
TAXABLE SEWER SYSTEM REFUNDING REVENUE BONDS,
SERIES 2020**

Dated: Date of Delivery

Due: March 1, as shown below

The Series 2020 Bonds initially will be issued by Spartanburg Sanitary Sewer District, a special purpose district and political subdivision of the State of South Carolina (the "Issuer" or the "District"), as registered bonds in denominations of \$5,000 and integral multiples thereof in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2020 Bonds under a book-entry only system, as described herein. So long as the Series 2020 Bonds are held in book-entry form beneficial owners of Series 2020 Bonds will not receive physical delivery of bond certificates. Interest on the Series 2020 Bonds is payable on each March 1 and September 1 commencing September 1, 2020 through maturity. U.S. Bank National Association is serving as Trustee, Paying Agent and Registrar with respect to the Series 2020 Bonds.

The Series 2020 Bonds are being issued to (i) provide funds to refund a portion of the outstanding Series 2013B Bonds (as defined herein); and (ii) pay the costs and expenses of issuance of the Series 2020 Bonds. See "SOURCES AND USES OF FUNDS" and "PLAN OF REFUNDING."

The Series 2020 Bonds are subject to optional and mandatory redemption by the District prior to maturity as set forth herein.

THE SERIES 2020 BONDS AND THE INTEREST THEREON ARE PAYABLE SOLELY FROM AND SHALL BE SECURED BY A PLEDGE OF AND A LIEN UPON THE GROSS REVENUES OF THE SYSTEM. SUCH SERIES 2020 BONDS SHALL NOT CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT WITHIN THE MEANING OF ANY PROVISION, LIMITATION OR RESTRICTION OF THE CONSTITUTION OR THE LAWS OF THE STATE OF SOUTH CAROLINA, OTHER THAN THOSE PROVISIONS AUTHORIZING INDEBTEDNESS PAYABLE SOLELY FROM A REVENUE-PRODUCING PROJECT NOT INVOLVING REVENUES FROM ANY TAX OR LICENSE; AND THE FAITH, CREDIT AND TAXING POWER OF THE DISTRICT ARE EXPRESSLY NOT PLEDGED THEREFOR. THE DISTRICT IS NOT OBLIGATED TO PAY ANY OF THE SERIES 2020 BONDS OR THE INTEREST THEREON EXCEPT FROM THE GROSS REVENUES OF THE SYSTEM.

MATURITY SCHEDULE

Due	Principal	Interest			Due	Principal	Interest		
March 1	Amount	Rate	Yield	CUSIP	March 1	Amount	Rate	Yield	CUSIP
2021	\$ 785,000	1.349%	1.349%	847175LY0	2029	\$4,960,000	2.235%	2.235%	847175MG8
2022	515,000	1.399	1.399	847175LZ7	2030	4,605,000	2.305	2.305	847175MH6
2023	525,000	1.646	1.646	847175MA1	2031	4,715,000	2.425	2.425	847175MJ2
2024	535,000	1.799	1.799	847175MB9	2032	4,820,000	2.525	2.525	847175MK9
2025	540,000	1.889	1.889	847175MC7	2033	4,950,000	2.625	2.625	847175ML7
2026	550,000	1.938	1.938	847175MD5	2034	5,080,000	2.725	2.725	847175MM5
2027	565,000	2.038	2.038	847175ME3	2035	5,215,000	2.825	2.825	847175MN3
2028	1,795,000	2.165	2.165	847175MF0					

\$6,045,000 2.954% Term Bond due March 1, 2037, Yield 2.954%, CUSIP 847175MP8

The Series 2020 Bonds are offered when, as and if issued and delivered to the purchaser of the Series 2020 Bonds and are subject to the approval of legality and of certain other legal matters by Bond Counsel, Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina. Certain legal matters will be passed on for the Underwriters by their counsel Parker Poe Adams & Bernstein LLP, Columbia, South Carolina, and for the Issuer by its counsel, Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina. First Tryon Advisors, Charlotte, North Carolina, is acting as Financial Advisor. Haynsworth Sinkler Boyd, P.A., Charleston, South Carolina serves as Disclosure Counsel. It is expected that the Series 2020 Bonds will be delivered through the facilities of DTC in New York, New York, on or about May 28, 2020.

Stephens Inc.

BAIRD

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Dated: April 23, 2020

In connection with this offering, the Underwriters may over allot or effect transactions that stabilize or maintain the market price of the Series 2020 Bonds at a level above that which might otherwise prevail in the open market, and such stabilizing, if commenced, may be discontinued at any time.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation in connection with this offering other than as contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell, or the solicitation of an offer to buy, nor shall there be any sale of the Series 2020 Bonds by any person, in any jurisdiction in which it is not lawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the District and from other sources that are deemed to be reliable. Neither the delivery of this Official Statement nor the sale of any of the Series 2020 Bonds implies that the information herein is correct as of any time subsequent to the date hereof. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

THE SERIES 2020 BONDS WILL NOT BE REGISTERED OR QUALIFIED WITH THE SECURITIES AND EXCHANGE COMMISSION BY REASON OF THE PROVISIONS OF SECTION 3(A)(2) OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 304(A)(4) OF THE TRUST INDENTURE ACT OF 1939, AS AMENDED. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2020 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE SERIES 2020 BONDS HAVE BEEN REGISTERED OR QUALIFIED, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, SHALL NOT BE REGARDED AS A RECOMMENDATION THEREOF.

These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of the document. Any representation to the contrary is a criminal offense.

All quotations from and summaries and explanations of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2020 Bonds shall under any circumstance create any implication that there has been any change in the affairs of the District since the date hereof.

This Official Statement contains forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The District disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the District’s expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

U.S. Bank National Association, as Trustee, Registrar and Paying Agent, has not provided, or undertaken to determine the accuracy of, any of the information contained in this Official Statement and makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information, (ii) the validity of the Series 2020 Bonds, or (iii) the tax status of the interest on the Series 2020 Bonds.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters make no representation or warranty, express or implied, as to (1) the accuracy or completeness of such information, (2) the validity of the Series 2020 Bonds, or (3) the tax status of the interest on the Series 2020 Bonds.

The CUSIP data herein are provided by CUSIP Global Services. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only at the time of issuance of the Series 2020 Bonds, and the District makes no representation with respect to such numbers nor undertakes any responsibility for their accuracy now or at any time in the future.

SPARTANBURG SANITARY SEWER DISTRICT, SOUTH CAROLINA

COMMISSIONERS

Louie W. Blanton, Chairman
Barbara J. Barnes
Jeff Horton
Horace C. Littlejohn, Jr.
John D. Montgomery
Angela M. Viney
Mayor Junie White

CHIEF EXECUTIVE OFFICER

Sue G. Schneider

CHIEF FINANCIAL OFFICER

G. Newton Pressley

**BOND COUNSEL, DISCLOSURE COUNSEL AND
COUNSEL TO THE ISSUER**

Haynsworth Sinkler Boyd, P.A.

UNDERWRITER'S COUNSEL

Parker Poe Adams & Bernstein LLP

FINANCIAL ADVISOR

First Tryon Advisors

TRUSTEE

U.S. Bank National Association

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SUMMARY STATEMENT

The following Summary Statement is qualified in its entirety by the more detailed information and financial statements contained elsewhere in this Official Statement and the Appendices hereto (collectively, the “Official Statement”). Unless otherwise defined in this Summary Statement, all capitalized terms used in this Summary Statement shall have the meanings ascribed to them elsewhere in the Official Statement and in Appendix B - “BOND RESOLUTION TOGETHER WITH AMENDMENTS.” The offering of the Series 2020 Bonds to potential investors is made only by means of this entire Official Statement, and no person is authorized to detach this Summary Statement from the Official Statement or to otherwise use it without the entire Official Statement.

The Issuer	Spartanburg Sanitary Sewer District, South Carolina, a special purpose district and political subdivision of the State of South Carolina (the “Issuer” or the “District”), located in Spartanburg County, South Carolina (the “County”), with a small portion in Cherokee County, provides interceptor trunk lines and sewerage treatment facilities within the District’s boundaries, and provides sewage collection lines to certain portions of the District. See “THE ISSUER” and Appendix A - “ECONOMIC AND DEMOGRAPHIC DATA FOR SPARTANBURG COUNTY.”
The Series 2020 Bonds	The \$46,200,000 Spartanburg Sanitary Sewer District, South Carolina, Taxable Sewer System Refunding Revenue Bonds, Series 2020 (the “Series 2020 Bonds”) are being issued by the Issuer, initially in book-entry only form in principal amounts of \$5,000 or any integral multiple thereof. See “THE SERIES 2020 BONDS.”
Dated Date and Date of Delivery of Series 2020 Bonds	The Series 2020 Bonds will be initially dated their date of delivery, and will bear interest from such date. It is expected that the Series 2020 Bonds will be available for delivery through the facilities of The Depository Trust Company in New York, New York on or about May 28, 2020.
Interest Payments	Interest on the Series 2020 Bonds (calculated on the basis of a 360-day year of twelve 30-day months) will be payable on each March 1 and September 1 commencing September 1, 2020.
Maturities	The Series 2020 Bonds mature serially on March 1, 2021 to 2035, and as term bonds on March 1, 2037 as indicated on the front cover hereof.
Redemption	The Series 2020 Bonds are subject to optional and mandatory redemption prior to maturity as set forth herein.
Purpose of the Issue	The Series 2020 Bonds are being issued to (i) provide funds to refund a portion of the outstanding 2013B Bonds (as defined herein); and (ii) pay the costs and expenses of issuance of the Series 2020 Bonds. See “SOURCES AND USES OF FUNDS” and “PLAN OF REFUNDING.”
Security	The Series 2020 Bonds and the interest thereon are payable solely from and shall be secured by a pledge of and a lien upon the Gross Revenues of the System. Such Series 2020 Bonds shall not constitute an indebtedness of the District within the meaning of any provision, limitation or restriction of the constitution or the laws of the State of South Carolina, other than those provisions authorizing indebtedness payable solely from a revenue-producing project not involving revenues from any tax or license; and the faith, credit and taxing power of the District are expressly not pledged therefor. The District is not obligated to pay any of the Series 2020 Bonds or the interest thereon except from the Gross Revenues of the System. See “SECURITY FOR THE BONDS.”

Tax Status of Interest on the Series 2020 Bonds	Interest on the Series 2020 Bonds is not excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS” for a brief description of certain federal income tax consequences to certain recipients of interest on the Series 2020 Bonds. The Series 2020 Bonds and the interest thereon will be exempt from all State, county, municipal and school district and other taxes or assessments imposed within the State of South Carolina, except estate, transfer and certain franchise taxes.
Professionals Involved in the Offering	Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina, is serving as Bond Counsel. Certain legal matters will be passed upon for the Issuer by Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina and for the Underwriters by Parker Poe Adams & Bernstein LLP, Columbia, South Carolina. U.S. Bank National Association is serving as Trustee, Paying Agent and Registrar. Haynsworth Sinkler Boyd, P.A., Charleston, South Carolina serves as Disclosure Counsel. First Tryon Advisors is serving as Financial Advisor.
Authorization	The Series 2020 Bonds are being issued pursuant to the provisions of Title 6, Chapter 17 of the Code of Laws of South Carolina 1976, as amended, and resolutions adopted by the Commission of the Issuer. See “AUTHORIZATION AND PURPOSE OF SERIES 2020 BONDS--Authorization.”
Continuing Disclosure	The Issuer has undertaken, pursuant to a covenant to comply with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”), for the benefit of holders of the Series 2020 Bonds, to provide certain financial information and operating data relating to the Issuer by not later than the last day of the seventh month after the end of each fiscal year commencing with the fiscal year ending June 30, 2020 (the “Annual Information”), and to provide notices of the occurrence of certain enumerated events. The Annual Information and the event notices will be filed by or on behalf of the Issuer with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) system (and with the State Information Depository, if any, established by the State of South Carolina). These covenants have been made in order to assist the original purchaser of the Series 2020 Bonds in complying with the Rule. The nature of the information to be provided in the Annual Information and the notices of certain significant events are set forth under the caption “CONTINUING DISCLOSURE.”
General	<p>This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the Official Statement will be deposited with the Municipal Securities Rulemaking Board through EMMA. Copies of the Official Statement, the Bond Resolution and the 2020 Series Resolution (as such terms are defined herein) and other relevant documents and information regarding the documents may be obtained from G. Newton Pressley, Chief Financial Officer of the Issuer, (864) 580-5620, 200 Commerce Street, Spartanburg, South Carolina.</p> <p>The Official Statement, including the cover page and the attached Appendices, contains specific information relating to the Series 2020 Bonds, the Issuer and the System and other information pertinent to this issue. See “THE ISSUER” and Appendix C for financial information relating to the Issuer and the System.</p> <p>All information included herein has been provided by the Issuer except where attributed to other sources. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such reference or summary is qualified in its entirety by reference to each such document, statute, report or other instrument.</p>

\$46,200,000
SPARTANBURG SANITARY SEWER DISTRICT, SOUTH CAROLINA
TAXABLE SEWER SYSTEM REFUNDING REVENUE BONDS, SERIES 2020

INTRODUCTION

This Official Statement of the Spartanburg Sanitary Sewer District, South Carolina, a special purpose district and political subdivision of the State of South Carolina (the “Issuer” or the “District”) which includes the cover page hereof and the appendices hereto, provides information relating to the Issuer and its \$46,200,000 Taxable Sewer System Refunding Revenue Bonds, Series 2020 (the “Series 2020 Bonds”). The Series 2020 Bonds, the Outstanding Bonds and any Additional Bonds (as such terms are hereinafter defined) are referred to herein collectively as the “Bonds.” Included in this Official Statement are brief descriptions of the Series 2020 Bonds and the security therefor, the Issuer, the sewer transportation, collection and wastewater treatment system of the Issuer (the “System”) and the resolutions pursuant to which the Series 2020 Bonds are authorized by the Issuer. Also included is certain financial information relating to the Issuer. All summaries of documents herein are qualified by reference to such documents in their entirety.

AUTHORIZATION AND PURPOSE OF THE SERIES 2020 BONDS

Authorization

The Series 2020 Bonds are issued pursuant to Title 6, Chapter 17, Code of Laws of South Carolina 1976, as amended (the “Enabling Act”), a bond resolution adopted by the Spartanburg Sanitary Sewer District Commission, the governing body of the Issuer (the “Commission”), on April 27, 1999 (as amended, the “Bond Resolution”) and a series resolution adopted by the Commission on February 25, 2020 (the “2020 Series Resolution,” which together with the Bond Resolution, will be referred to herein as the “Resolution”).

Purpose

The Series 2020 Bonds are being issued to (i) provide funds to refund a portion of the 2013B Bonds (as defined herein); and (ii) pay the costs and expenses of issuance of the Series 2020 Bonds. See “SOURCES AND USES OF FUNDS” and “PLAN OF REFUNDING.”

THE SERIES 2020 BONDS

Form and Denomination

The Series 2020 Bonds will be dated their date of delivery and will mature and bear interest in the amounts and at the rates (calculated on the basis of a 360-day year of twelve 30-day months) set forth on the cover page of this Official Statement. Interest on the Series 2020 Bonds will be payable on each March 1 and September 1 commencing September 1, 2020, until maturity. The Series 2020 Bonds will be issued as fully registered bonds in the denomination of \$5,000 or integral multiples thereof, not exceeding the principal amount of the Series 2020 Bonds maturing in each year and each will be registered in the name of the holder (the “Holder”) as set forth on the registry book maintained at the designated corporate trust office of U.S. Bank National Association, as registrar (in such capacity, the “Registrar”). The Series 2020 Bonds initially will be held in a book-entry only system administered by The Depository Trust Company, New York, New York (“DTC”), whose nominee, Cede & Co., will be the initial Holder of the Series 2020 Bonds. Principal of and interest on the Series 2020 Bonds held in book-entry form shall be payable as described herein under the heading “THE SERIES 2020 BONDS--Book-Entry Only System.”

Should the Series 2020 Bonds no longer be held in book-entry only form, interest will be paid by check of U.S. Bank National Association, as paying agent (in such capacity, the “Paying Agent”), mailed to each owner of the Series 2020 Bonds at the address shown on the registry book maintained by the Registrar on the fifteenth day of the calendar month immediately preceding each interest payment date (the “Record Date”) or, upon request of any Holder of \$1,000,000 or more in aggregate principal amount of Series 2020 Bonds, by wire transfer to an account specified in such request. Principal on Series 2020 Bonds not held in book-entry only form will be payable at the corporate office of the Registrar.

Optional Redemption

The Series 2020 Bonds maturing after March 1, 2030 may be redeemed prior to maturity upon thirty (30) days notice, at the option of the District on and after March 1, 2030, in whole or in part, at any time prior to maturity at a redemption price equal to the principal amount thereof plus interest accrued to the date fixed for redemption.

Mandatory Redemption

The Series 2020 Bonds maturing on March 1, 2037 are subject to mandatory sinking fund redemption, in part by lot, prior to maturity, at the par amount thereof plus accrued interest to the date of redemption (to the extent not previously redeemed) on March 1 in the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2036	\$2,995,000
2037*	3,050,000

*Final Maturity.

Notice of Redemption

If any of the Series 2020 Bonds, or portions thereof, are called for redemption, the Trustee shall give notice to the Holders of such Series 2020 Bonds to be redeemed, in the name of the District, of the redemption of such Series 2020 Bonds, or portions thereof, which notice shall specify the Series 2020 Bonds to be redeemed. The notice shall be given by mailing a copy of the redemption notice by first class mail, postage prepaid, at least thirty (30) days, but not more than sixty (60) days, prior to the date fixed for redemption to the Holder of each Series 2020 Bond or portion thereof to be redeemed at the address shown on the registry book (the "Books of Registry"). Failure to duly give notice by mailing, or any defect in the notice, to the Holder of any Series 2020 Bond designated for redemption shall not affect the validity of any proceedings for the redemption of any other Series 2020 Bonds. All Series 2020 Bonds or portions thereof called for redemption will cease to bear interest on the specified redemption date, provided funds for their redemption are on deposit with the Trustee on or before such redemption date; and the Series 2020 Bonds shall not be deemed to be Outstanding under the provisions of the Bond Ordinance. If on the date fixed for redemption there is not on deposit with the Trustee funds for redemption, the Trustee shall send a notice to all Holders in the same manner as the notice of redemption canceling such notice of redemption and such Series 2020 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption. Notwithstanding the foregoing, failure to give any such notice by mail, or any defect in the notice mailed to the Holder of any Series 2020 Bond, shall not affect the validity of the proceedings for the redemption of any other Series 2020 Bond.

So long as a book-entry-only system is used for determining beneficial ownership of the Series 2020 Bonds, the Trustee shall send any notice of redemption to DTC or Cede & Co., its nominee, using any method of delivery as allowed by DTC's rules and procedures. Any failure of DTC or Cede & Co. to notify any DTC Participant, or of any DTC Participant or Indirect Participant to notify the Beneficial Owner of any Series 2020 Bond of any such notice, will not affect the validity of the proceedings for the redemption of any other Series 2020 Bonds.

While the book-entry-only system is in effect, if less than all of the ownership interests of a Bond of a single maturity held by Cede & Co., as nominee of DTC, are to be redeemed, the interests of Beneficial Owners to be redeemed shall be selected by DTC pursuant to DTC's rules and procedures. If a book-entry-only system is not being used and less than all the Series 2020 Bonds of any maturity are called for redemption, the Series 2020 Bonds of such maturity to be redeemed shall be selected by lot by the Trustee.

Registration and Transfer Provisions

Series 2020 Bonds Subject to the Book-Entry Only System

For so long as DTC acts as securities depository for the Series 2020 Bonds, the registration and transfer of ownership interests in Series 2020 Bonds shall be accomplished by book entries made by DTC and the Participants and,

where appropriate, the Indirect Participants, as described herein under the heading “THE SERIES 2020 BONDS--Book-Entry Only System.”

Series 2020 Bonds Not Subject to Book-Entry Only System

Should the Series 2020 Bonds no longer be held in book-entry only form, each Series 2020 Bond may be registered only upon the registration books of the Issuer kept for that purpose by the Holder thereof in person or by his duly authorized attorney upon surrender thereof and an assignment with a written instrument of transfer satisfactory to the Trustee, duly executed by the Holder or his duly authorized attorney. Upon the transfer of any such registered Series 2020 Bond, the Issuer shall cause to be issued, in the name of the transferee, a new registered Series 2020 Bond of the same aggregate principal amount as the unpaid principal amount of the surrendered Series 2020 Bond. There shall be no charge to the Holder for such exchange or transfer of Series 2020 Bond except that the Trustee may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or transfer. Neither the Issuer nor the Trustee shall be required to register, transfer or exchange Series 2020 Bond after the Record Date until the subsequent bond payment date or after the mailing of any notice of redemption, or to register, transfer or exchange any Series 2020 Bond called for redemption.

The Issuer and the Trustee may deem and treat the person in whose name any Series 2020 Bond shall be registered upon the registration books of the Issuer as the absolute owner of such Series 2020 Bond, whether such Series 2020 Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of, premium (if any) and interest on such Series 2020 Bond and for all other purposes, and all such payments so made to any such Holder or, upon his order, shall be valid and effectual to satisfy and discharge the liability upon such Series 2020 Bond to the extent of the sum or sums so paid, and neither the Issuer nor the Trustee shall be affected by any notice to the contrary.

Book-Entry Only System

DTC will initially act as securities depository for the Series 2020 Bonds. The Series 2020 Bonds will be issued as fully registered securities in the name of Cede & Co. (DTC's partnership nominee). Upon issuance of the Series 2020 Bonds, one fully registered bond will be issued for each maturity of the Series 2020 Bonds as set forth on the cover page hereof, each in the aggregate principal amount of such maturity and will be deposited with DTC. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2020 Bonds references herein to the holders or registered owners (the “Holders”) of the Series 2020 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners (hereinafter defined) of the Series 2020 Bonds.

The information under this caption concerning DTC and DTC's book-entry system has been obtained from sources believed to be reliable, but the Issuer takes any responsibility for the accuracy or completeness thereof.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, the National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2020 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2020 Bond ("Beneficial Owner") is in turn to be recorded on the DTC Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2020 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2020 Bonds, except in the event that use of the book-entry system for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other names as may be requested by an authorized representative of DTC. The deposit of Series 2020 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2020 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2020 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

The Issuer and the Trustee will recognize DTC or its nominee, Cede & Co., as the registered owner of the Series 2020 Bonds for all purposes. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2020 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2020 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2020 Bonds are credited on the record date (identified on a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2020 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Issuer and the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer acting through the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2020 Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

SECURITY FOR THE BONDS

Pledge of Gross Revenues

The Bond Resolution provides that all Bonds, as such term is defined below, including the Series 2020 Bonds, shall be payable solely from and shall be secured by a pledge of and a lien upon the Gross Revenues of the System (as such term is defined below). Such pledge and lien securing the Bonds shall be on a parity in all respects with the Outstanding Bonds, and any other Bonds that may be issued in the future pursuant to the terms of the Bond Resolution and a Series Resolution. "Bonds" is defined in the Bond Resolution to include the Outstanding Bonds and any other indebtedness or obligations, including any obligations entered into under the provisions of long-term contracts payable from the revenues of the System, issued in accordance with the Act, the Bond Resolution and a Series Resolution, excluding those (1) issued as Junior Lien Bonds and Special Facilities Bonds and (2) subsequently converted to General Obligation Bonds. As defined in the Bond Resolution, "Gross Revenues" or "Gross Revenues of the System" means for the period in question:

- (a) all receipts and revenues (except customers' deposits) derived from the operation of the System including service fees (tap-in fees, connection fees, front-foot assessments and availability fees);
- (b) all proceeds from the sale or other disposition of any property owned directly or beneficially by the District in connection with the operation of the System;
- (c) all interest and other income received by the District, directly or indirectly from the investment of any moneys or accounts relating to the System; excluding, however, investment income restricted to a purpose inconsistent with the payment of operating expenses or debt service, and specifically excluding (whether or not so restricted) interest earned on any construction fund or construction account created with the proceeds of borrowing by the District; and
- (d) all other encumbered money to which the District may become entitled from any source whatsoever, including, but not limited to, any Related Financial Transaction (provided, however, that a Related Financial Transaction and the revenues derived therefrom shall be part of the Gross Revenues only in respect of the Series of Bonds to which such Related Financial Transaction relates), but specifically excluding any amounts received by way of *ad valorem* property taxes, government grants or aids-to-construction.

THE SERIES 2020 BONDS AND THE INTEREST THEREON ARE PAYABLE SOLELY FROM AND SHALL BE SECURED BY A PLEDGE OF AND A LIEN UPON THE GROSS REVENUES OF THE SYSTEM. SUCH SERIES 2020 BONDS SHALL NOT CONSTITUTE AN INDEBTEDNESS OF THE DISTRICT WITHIN THE MEANING OF ANY PROVISION, LIMITATION OR RESTRICTION OF THE CONSTITUTION OR THE LAWS OF THE STATE OF SOUTH CAROLINA, OTHER THAN THOSE PROVISIONS AUTHORIZING INDEBTEDNESS PAYABLE SOLELY FROM A REVENUE-PRODUCING PROJECT NOT INVOLVING REVENUES FROM ANY TAX OR LICENSE; AND THE FAITH, CREDIT AND TAXING POWER OF THE DISTRICT ARE EXPRESSLY NOT PLEDGED THEREFOR. THE DISTRICT IS NOT OBLIGATED TO PAY ANY OF THE SERIES 2020 BONDS OR THE INTEREST THEREON EXCEPT FROM THE GROSS REVENUES OF THE SYSTEM.

Rate Covenant

The District has covenanted in the Bond Resolution to maintain rates and charges for all services furnished by the System which at all times shall be sufficient: (i) to provide for the punctual payment of the principal of and interest on all Bonds, that may be outstanding from time to time, including any periodic payments required pursuant to any Related Financial Transaction, all Junior Lien Bonds and all General Obligation Bonds, but only to the extent that the District's *ad valorem* property tax collections are not sufficient to meet such obligations; (ii) to maintain the Debt Service Funds to provide for the punctual payment of the principal of and interest on the Bonds; (iii) to maintain each Debt Service Reserve Fund, if any, in the manner prescribed by a Series Resolution; (iv) to provide for the payment of the Operation and Maintenance Expenses; (v) to build and maintain a reserve for depreciation of the System, for contingencies and for improvements, betterments and extensions to the System other than those necessary

to maintain the same in good repair and working order; (vi) to pay all amounts owing under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit relating to the Reserve Requirement for a particular Series of Bonds; and (vii) to discharge all obligations imposed by the Enabling Act and by the Bond Resolution.

The District further covenants and agrees in the Bond Resolution that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the System which, together with other income, are reasonably expected to yield annual Net Earnings in the current Fiscal Year equal to at least the sum of (i) one hundred ten percent (110%) of the Annual Principal and Interest Requirements for all Series of Bonds Outstanding in such Fiscal Year plus (ii) one hundred percent (100%) of the amount necessary to make payment of any amounts owing in such Fiscal Year under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated by the Bond Resolution plus (iii) one hundred percent (100%) of the amount of debt service on any General Obligation Bonds in such Fiscal Year not paid from *ad valorem* property tax receipts plus (iv) one hundred percent (100%) of the principal and interest on Junior Lien Bonds, plus (v) one hundred percent (100%) of any required payment into a Debt Service Reserve Fund due in such Fiscal Year; and, promptly upon any material change in the circumstances which were contemplated at the time such rates and charges were most recently reviewed, but not less frequently than once in each Fiscal Year, shall review the rates and charges for its services and shall promptly revise such rates and charges as necessary to comply with the foregoing requirement. The foregoing covenant is not, however, to be construed to require the levy of an *ad valorem* property tax for the benefit of the Holders of Bonds. Prior to the beginning of each Fiscal Year, the District shall adopt an Annual Budget, including amended rate schedules for such Fiscal Year, which shall set forth in reasonable detail the estimated revenues and operating expenses and other expenditures of the System for such Fiscal Year and which shall include appropriations for the estimated operating expenses and the amount to be deposited during such Fiscal Year in the Depreciation and Contingent Fund. The District may at any time adopt an amended Annual Budget for the remainder of the then-current Fiscal Year.

Debt Service Reserve Fund

No Debt Service Reserve Fund will be established to secure the Series 2020 Bonds.

Other Funds

The Bond Resolution also establishes the General Revenue Fund, the Debt Service Funds, the Operation and Maintenance Fund, and the Depreciation and Contingent Fund. With certain limited exceptions, all Gross Revenues of the System are deposited in the General Revenue Fund which is held by a bank or depository selected by the District. So long as the District establishes proper records of receipts and disbursements, the General Revenue Fund may be used for the purposes of the Operation and Maintenance Fund.

A Debt Service Fund for each Series of Bonds shall be established with the Trustee. The 2020 Debt Service Fund is established pursuant to the provisions of the 2020 Series Resolution and is intended to provide for the payment of the principal of, premium, if any, and interest on the Series 2020 Bonds as the same fall due. There shall be deposited into the 2020 Debt Service Fund the monthly fraction of the aggregate amount of interest to become due on the Series 2020 Bonds on the next ensuing interest payment date and the monthly fraction of the aggregate amount of the principal of the Series 2020 Bonds becoming due and payable on the next principal payment date.

The Operation and Maintenance Fund is intended to provide for the payment of all Operation and Maintenance Expenses of the System. Withdrawals from this fund are made by order of the District in accordance, as nearly as may be practicable, with the Annual Budget established by the District prior to the commencement of each Fiscal Year. See Appendix B – “BOND RESOLUTION TOGETHER WITH AMENDMENTS.”

The Depreciation and Contingent Fund, which is held, maintained and controlled by the District, is intended to provide a reasonable reserve for depreciation of the System, for contingencies and for improvements, betterments and extensions of the System. The Depreciation and Contingent Fund shall be maintained in an amount established not less frequently than annually by the District on the advice of the Feasibility Consultants and may also be used to prevent defaults in payments to be made with respect to Bonds and to redeem Bonds.

As permitted under the Bond Resolution, the District has established a Rate Stabilization Fund to provide for the stabilization of rates by carrying forward surplus revenues. Under the Bond Resolution, withdrawals from the Rate Stabilization Fund for deposit into the Operation and Maintenance Fund are counted as Gross Revenues in the Fiscal Year of withdrawal, to the extent that they exceed deposits into the Rate Stabilization Fund during that Fiscal Year.

For a more detailed description of the above-referenced funds see Appendix B – “BOND RESOLUTION TOGETHER WITH AMENDMENTS.”

Disposition of Gross Revenues

The Gross Revenues of the System, excluding that money the disposition of which is controlled by other provisions of the Bond Resolution, are declared to be a part of the General Revenue Fund and are, as received, deposited into the General Revenue Fund. The dispositions from the General Revenue Fund required below shall be made on or before the tenth (10th) Business Day of each month, unless otherwise provided below, and in the order of priority established below. Provision is made for the payment of the principal of and interest on all Bonds then Outstanding, including any periodic payments required pursuant to any Related Financial Transaction, all without priority of any Bonds over others but ratably as to each Series of Bonds. To that end:

- (a) There shall be deposited into the respective Debt Service Funds including the Debt Service Fund established for the Series 2020 Bonds the monthly fraction of the aggregate amount of interest to become due on the respective Series of Bonds on the next ensuing interest payment date. Provided, however, that if provision has been made for the payment of all or part of the next installment of interest to become due on any particular Series of Bonds, pursuant to any other provision of this Bond Resolution, or any Series Resolution, or by reason of investment earnings, then, in such event, the deposits required by this paragraph may be omitted, or reduced accordingly;
- (b) There shall be deposited into the respective Debt Service Funds including the Debt Service Fund established for the Series 2020 Bonds the monthly fraction of the aggregate amount of principal of the respective Series of Bonds becoming due and payable on the next ensuing principal maturity date (whether at stated maturity or by sinking fund installments). Provided, however, that if provision has been made for the payment of all or part of the next installment of principal to become due on any particular Series of Bonds, pursuant to any other provision of this Bond Resolution, or any Series Resolution, or by reason of investment earnings, then, in such event, the deposits required by this paragraph may be omitted, or reduced accordingly;
- (c) If, on the occasion when the deposits required by (a) and (b) above are to be made, the sum total of the deposits required thereby, plus previous monthly deposits and the remaining deposits to be made prior to the next succeeding principal and interest payment dates, will be less than the sum required to effect the payment of the next succeeding installment of either principal or interest, or both, a sum equal to such deficiency shall be added to the deposits so to be made;
- (d) Deposits shall next be made in the amounts required by the Bond Resolution into any Debt Service Reserve Fund including the Debt Service Reserve Fund, if any, established for the Series 2020 Bonds. The Trustee shall calculate the value of the cash and securities in each Debt Service Reserve Fund as of each June 30 and December 31, such calculation to be completed within 45 days after such date, and as of any other date determined by the District Representative (not to exceed two additional optional calculation dates in any 12 month period), in order to determine if the Debt Service Reserve Fund contains the Reserve Requirement therefor, and the extent to which payments therefor or withdrawals therefrom must be made, and the timing thereof, pursuant to the Bond Resolution and the respective Series Resolutions. Unless a Debt Service Reserve Fund then contains in cash and securities (or a surety bond, insurance policy, line of credit or letter of credit) an amount at least equal to its Reserve Requirement, there shall be paid into such Debt Service Reserve Fund on the tenth Business Day of each of the 11 months following a determination of a deficiency in such Debt Service Reserve Fund one-eleventh (1/11th) of the amount necessary to re-establish in such Debt Service Reserve Fund its Reserve Requirement; provided, however, nothing herein shall

preclude the District from fully re-establishing such Reserve Requirement in a more timely fashion than as so prescribed. Any surety bond, line of credit, insurance policy or letter of credit being used to meet the Reserve Requirement of a Debt Service Reserve Fund shall be valued at the amount still remaining to be drawn thereon; and in the event that any such surety bond, line of credit, insurance policy or letter of credit has been drawn upon, the amount necessary to restore the principal balance thereof shall be paid by the District in the same manner and on a parity with the payments described in (c) above;

- (e) Provision shall be made for the payment of interest on amounts advanced by the provider of any surety bond, line of credit, insurance policy or letter of credit contemplated in the Bond Resolution;
- (f) The transfer to the Operation and Maintenance Fund, either from the General Revenue Fund or from the Rate Stabilization Fund as described in subsection (i) below of the amount budgeted for the Operation and Maintenance Expenses for the ensuing month less the amount of Operation and Maintenance Expenses for said month defrayed from *ad valorem* taxes levied and collected therefor;
- (g) Provision shall be made for the payment of any other indebtedness which is junior and subordinate to the Bonds in the order of priority contemplated by the proceedings authorizing their issuance;
- (h) The deposit into the Depreciation and Contingent Fund that sum which is one-twelfth (1/12) of the sum which has currently been determined by the District to be the estimated requirements therefor for the then current Fiscal Year;
- (i) All money remaining after making the payments required by (a) through (h) above shall be used as determined from time to time by the District for the maintenance or improvement of the System, or payment of debt payable from the revenues of the System, or for the payment of Special Facilities Bonds, or for the payment of General Obligation Bonds, or for payment into a Rate Stabilization Fund, or for any other lawful purpose of the District. The District may determine by resolution of the Commission at any time to deposit any percentage of surplus money, or any set amount of surplus money to the extent that it is realized, into a Rate Stabilization Fund; provided, however, that the amount on deposit in a Rate Stabilization Fund shall not exceed the amount budgeted for the Operation and Maintenance Fund for the then current Fiscal Year. Amounts on deposit in a Rate Stabilization Fund may, at the direction of the District Representative, be used to make the deposits into the Operation and Maintenance Fund. Amounts on deposit in a Rate Stabilization Fund may also, at the option of the Commission, be withdrawn and used for any other lawful purpose of the District, but in such event, such withdrawals for purposes other than Operation and Maintenance Expenses shall not be included in Net Earnings.

Additional Bonds

The District may issue from time to time additional Series of Bonds ("Additional Bonds") on a parity with the Series 2020 Bonds and the Bonds of any other Series then outstanding for the purposes of obtaining funds for the expansion and improvement of the System; providing funds for the payment of any bond, anticipation note, or notes that may have been issued in anticipation of the issuance and sale of Bonds; refunding bond or other obligations issued to provide land or facilities which are or are to become a part of the System or which are or were payable in whole or in part from revenues of the System; funding a Debt Service Reserve Fund or restoring the value of the cash and securities in a Debt Service Reserve Fund to an amount equal to the applicable Reserve Requirement; and paying the costs of issuance and costs of any credit enhancement incurred by the District in connection with the issuance of Bonds. The conditions to the issuance of such Additional Bonds include:

- (1) On the occasion of the issuance of any Additional Bonds, there shall exist no default in the payment of the principal of or interest on any Bonds, General Obligation Bonds or Junior Lien Bonds then outstanding;
- (2) There shall be on deposit in each Debt Service Reserve Fund an amount equal to the applicable Reserve Requirement immediately following the issuance of such Series of Bonds, as is necessary

to make the value of the moneys and securities in each Debt Service Reserve Fund equal to the applicable Reserve Requirement;

- (3) Except in the case of the initial Series of Bonds issued under the Resolution, and except in the case of a Series or a portion of a Series of Bonds issued for the purpose of refunding any Bonds and which Series or portion meets the test prescribed in paragraph (4) hereof, and in any event subject to the provisions of paragraph (5) hereof, the following requirements must be met:
- (A) Net Earnings must be projected by the Feasibility Consultant for each of the five (5) Fiscal Years immediately following the Fiscal Year in which the proposed Series of Bonds is issued. To demonstrate consistency with actual results, such projection of Net Earnings shall be based on the District's audited financial statements for the most recent Fiscal Year for which audited financial statements are available, together with the Annual Budget adopted by the Commission for the current Fiscal Year, as adjusted to reflect:
- (i) an evaluation of the assumptions underlying any projected growth in demand or increase in the number of utility customers, in order to ensure the consistency of historical trends with future expectations;
 - (ii) a computation of projected revenues from user charges, including any adjustments necessary to reflect projected demand, the projected customer base, and projected rates; provided that any projected rate adjustments may be given effect only in Fiscal Years, or portions thereof, following the expected implementation thereof, and must reflect the effect on revenues of the proposed rate adjustments relative to historical trends; and
 - (iii) projected expenses for the operation and maintenance of the System, including an evaluation of historical trends and expectations for specific cost increases as new facilities (including facilities financed with the proceeds of the proposed Series of Bonds) are placed into service.

Such projection of Net Earnings may also be adjusted to reflect the following:

- (a) in the event proceeds of such proposed Series of Bonds will be used to acquire a sewer utility, system or enterprise that is in existence and operating and whose current customers will become customers of the System upon such acquisition, 100% of the estimated Net Earnings to be received by the System during the first Fiscal Year beginning after the date of completion of the acquisition, as projected by the person or firm making the projection of Net Earnings, from the sewer utility, system or enterprise to be acquired with the proceeds of such proposed Series of Bonds; provided, however, that this adjustment shall be made only for Fiscal Years following the completion of such acquisition;
- (b) in the event proceeds of such proposed Series of Bonds will be used to construct or to acquire a newly constructed sewer utility, system, enterprise, or component of the System which will serve a currently populated area, 100% of the Net Earnings, estimated by the Feasibility Consultants, to be received by the System during the first Fiscal Year beginning after the date on which such project constructed or acquired with the proceeds of the proposed Series of Bonds is placed in service; provided, however, that this adjustment shall be made only for Fiscal Years following the completion of such construction or acquisition;

- (c) in the event proceeds of such proposed Series of Bonds will be used to construct or to acquire an expansion to the System, 100% of estimated Net Earnings to be received by the System in the first Fiscal Year following the completion of such project, certified by the Feasibility Consultants, from customers under long-term contracts that extend for the life of such proposed Series of Bonds; provided, however, that this adjustment shall be made only for Fiscal Years following the completion of such construction or acquisition; and
 - (iv) any amount allowed by any of clauses (a), (b) and (c) set forth above as an adjustment with respect to a previously issued Series of Bonds if the proposed Series of Bonds is being issued prior to the end of the first Fiscal Year in which the construction or acquisition financed by the previously issued Series of Bonds is completed;
- (B) Receipts from *ad valorem* property taxes levied by the District for General Obligation Bond debt service must be projected for each of the five (5) Fiscal Years immediately following the Fiscal Year in which the proposed Series of Bonds is issued. Such projection shall not assume any expansion of the boundaries of the District that has not already been finally enacted by the appropriate governmental body.
- (C)
 - (i) During each Fiscal Year for which Net Earnings and tax receipts are required to be projected pursuant to paragraphs (A) and (B) above, the sum of Net Earnings so projected for such Fiscal Year, plus the amount of receipts from *ad valorem* property taxes levied by the District for debt service on General Obligation Bonds so projected for such Fiscal Year, shall be not less than one hundred percent (100%) of the sum of the Combined Annual Principal and Interest Requirement for each such Fiscal Year on all Bonds Outstanding at the time of issuance (including such proposed Series of Bonds), plus the amount of debt service for each such Fiscal Year on all General Obligation Bonds outstanding at the time of issuance of the proposed Series of Bonds.
 - (ii) The sum of Net Earnings and receipts from property taxes to be levied by the District for General Obligation Bond debt service as projected pursuant to paragraphs (A) and (B) above, in the fifth (5th) Fiscal Year, shall be not less than one hundred percent (100%) of the sum, in any Fiscal Year in which Bonds Outstanding at the time of issuance of the proposed Series of Bonds (including such proposed Series) will remain Outstanding, of (i) the Combined Annual Principal and Interest Requirement on all Bonds Outstanding at the time of issuance (including such proposed Series of Bonds), plus (ii) the amount of debt service on all General Obligation Bonds outstanding at the time of issuance of the proposed Series of Bonds.
- (D)
 - (i) During each Fiscal Year for which Net Earnings are required to be projected pursuant to paragraph (A) above, Net Earnings as so projected for each such Fiscal Year shall not be less than one hundred ten percent (110%) of the amount that equals “x minus y,” where “x” equals the Combined Annual Principal and Interest Requirement for each such Fiscal Year on all Bonds Outstanding at the time of issuance (including such proposed Series of Bonds), and “y” equals the lesser of (i) the difference between (a) the amount projected pursuant to the provisions of paragraph (B) to be received by the District from *ad valorem* property taxes levied for debt service on General Obligation Bonds in such Fiscal Year and (b) the amount of debt service on General Obligation Bonds (that were General Obligation Bonds at the time of issuance of the proposed new Series of Bonds) that is projected to be paid from *ad valorem* property tax receipts in such Fiscal Year and (ii) the amount of debt service on Bonds Outstanding in each such Fiscal

Year that are convertible into General Obligation Bonds in such Fiscal Year for which the calculation is being made.

- (ii) Net Earnings forecasted pursuant to paragraph (A) above in the fifth (5th) Fiscal Year shall be not less than one hundred ten percent (110%) of the amount determined as “x minus y,” in each Fiscal Year after the fifth (5th) Fiscal Year in which Bonds Outstanding at the time of issuance of the proposed Series of Bonds (including such proposed Series of Bonds) will remain Outstanding, where “x” equals the Combined Annual Principal and Interest Requirement for each such Fiscal Year on all Bonds Outstanding at the time of issuance (including such proposed Series of Bonds), and “y” equals the lesser of (i) the difference between (a) the amount projected pursuant to the provisions of paragraph (B) to be received by the District from *ad valorem* property taxes levied for debt service on General Obligation Bonds in the fifth (5th) Fiscal Year and (b) the amount of debt service on General Obligation Bonds (that were General Obligation Bonds at the time of issuance of the proposed new Series of Bonds) that is projected to be paid from *ad valorem* property tax receipts in each such Fiscal Year, provided that in no event shall the amount described in this clause (b) be greater than the amount described in the preceding clause (a), and (ii) the amount of debt service on Bonds Outstanding in each such Fiscal Year that are convertible into General Obligation Bonds in such Fiscal Year for which the calculation is being made.
- (E) The required forecasts and projections described above are to be made, and the required coverage ratios shall on the basis of such forecasts and projects be certified, by the Accountant or by the Feasibility Consultants; provided, however, that in the instance of any Series of Bonds in the aggregate principal amount of \$3,000,000 or less, such forecasts, projects and certifications may be made by the District Representative.
- (4) In lieu of compliance with paragraph (3) above, in the case of a Series or a portion of a Series of Bonds issued for the purpose of refunding any Bonds, the Annual Principal and Interest Requirements of the refunding Bonds shall not exceed the Annual Principal and Interest Requirements of the refunded Bonds for any Fiscal Year until a time subsequent to the last maturity of said Bonds. In addition, maximum Annual Principal and Interest Requirements on all Bonds Outstanding after the refunding will not exceed the maximum Annual Principal and Interest Requirements on all Bonds outstanding prior to the refunding.
- (5) Any proceedings authorizing the issuance of Bonds or Junior Lien Bonds may prescribe, in addition to the requirements set forth in subsections (3) and (4) above, further requirements that must be met for the issuance of Bonds either on a parity with such Bonds or senior to such Junior Lien Bonds.
- (6) If any Series of Bonds shall contain Variable Rate Bonds:
 - (A) the Series Resolution shall provide for and specify a maximum interest rate on (a) such Bonds and (b) any reimbursement obligation to a liquidity provider for such Bonds;
 - (B) the liquidity provider for such Bonds shall be rated in one of the three (3) highest short term rating categories by either Moody’s or S&P; and
 - (C) any accelerated principal payments or any interest computed at a rate in excess of that on such Bonds due to the liquidity provider for such Bonds pursuant to any reimbursement agreement with such liquidity provider shall be subordinate to the payment of debt service on all Bonds; provided, however, if the tests referred to in subsections (3) and (4) above are calculated (and met) assuming such accelerated principal payment and such excess interest amount to the liquidity provider, then such accelerated principal payment and excess interest amount may be on a parity with the payment of debt service on all Bonds.

- (7) All amounts owing under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under the Bond Resolution shall have been paid.

Junior Lien Bonds

Notwithstanding that Bonds may be outstanding, the District may at any time, and without limitation and free of all conditions, issue Junior Lien Bonds, in such amount as it may from time to time determine, payable from the revenues of the System, provided that the pledge of revenues granted for the protection of said Junior Lien Bonds, shall at all times be and remain subordinate and inferior in all respects to the pledges of revenues made or authorized for the Bonds; and provided further, that the maturity of Junior Lien Bonds may not be accelerated and paid in full unless all of the Bonds shall have been paid or provision therefor has been made. Such Junior Lien Bonds may, under certain circumstances specified in the Bond Resolution, accede to the status of Bonds as discussed in Appendix B – “BOND RESOLUTION TOGETHER WITH AMENDMENTS.”

Special Facilities Bonds

The District shall have at all times the right to enter into contracts, leases or other agreements pursuant to which it will agree to construct, operate and pay the costs of Special Facilities to be financed by its issuance of obligations (“Special Facilities Bonds”), subject to the following conditions:

- (a) it shall have been determined to the satisfaction of the District that the rents, revenues or receipts to be derived from the Special Facilities shall be at least equal to the principal, interest and any reserve requirements contained in the resolution authorizing such Special Facilities Bonds and to pay all operation, maintenance and other costs and expenses applicable to such Special Facilities; and
- (b) the District’s revenues derived from Special Facilities need not be deposited in the General Revenue Fund, and may be pledged to secure Special Facilities Bonds, but no debt service or other cost or expense related to any Special Facilities may be paid from System revenues deposited in the General Revenue Fund except surplus moneys.

For purposes of the Bond Resolution, the term “Special Facilities” shall include all or a portion of sewer facilities and rights to all or a portion of the use of, or the capacity available from, any such facilities.

PLAN OF REFUNDING

The proceeds of the Series 2020 Bonds will be utilized to refund a portion of the Issuer’s outstanding bonds of an original issue of \$53,730,000 Sewer System Refunding Convertible Bonds, Series 2013B Bonds (the “Series 2013B Bonds”) and to pay costs of issuance of the Series 2020 Bonds. The portion of the Series 2013B Bonds to be refunded consist of the serial bonds maturing on March 1, 2028 through March 1, 2035 and the portion of the 5.00% 2038 term bond subject to mandatory sinking fund redemption on March 1, 2036 and March 1, 2037 (collectively, the “Refunded Series 2013B Bonds”). The portion of the 5.00% 2038 term bond subject to mandatory sinking fund redemption on March 1, 2038 is not outstanding. A portion of the net proceeds of the Series 2020 Bonds will be deposited with U.S. Bank National Association, as Escrow Agent (the “Escrow Agent”), pursuant to an escrow deposit agreement between the District and the Escrow Agent, in order to fund an escrow deposit account in an amount sufficient to pay the redemption price (at par), including accrued interest, on the Refunded Series 2013B Bonds on March 1, 2023.

SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds to be derived from the issuance and sale of the Series 2020 Bonds.

Sources of Funds	
Principal Amount of Series 2020 Bonds	\$46,200,000.00
Transfer from 2013B Debt Service Fund	<u>506,070.39</u>
Total Sources	<u>\$46,706,070.39</u>
Uses of Funds	
Defeasance of Refunded Series 2013B Bonds	\$46,254,669.93
Issuance Expenses ⁽¹⁾	<u>451,400.46</u>
Total Uses	<u>\$46,706,070.39</u>

⁽¹⁾Includes underwriters' discount, legal and financial advisory fees, Trustee's fees, rating agency fees, and other costs of issuance.

ANNUAL DEBT SERVICE REQUIREMENTS

The table below sets forth the annual debt service requirements beginning in Fiscal Year 2021 to be in effect upon the issuance of the Series 2020 Bonds for the Outstanding Bonds and the Series 2020 Bonds.

Fiscal Year Ending June 30	Series 2013A Revenue	Series 2013B Convertible ¹	Series 2014A Revenue	Series 2014B Convertible	Series 2019 Revenue	Series 2020 Revenue	Total
2021	\$ 327,000	\$ 367,206	\$ 310,150	\$ 1,771,250	\$ 961,750	\$ 1,660,573	\$ 5,397,930
2022	327,000	367,206	309,950	1,770,650	352,750	1,659,013	4,786,569
2023	327,000	367,206	309,550	1,774,450	352,750	1,661,808	4,792,764
2024	327,000	367,206	310,350	1,776,700	352,750	1,663,166	4,797,173
2025	327,000	367,206	309,550	1,769,100	352,750	1,658,542	4,784,148
2026	327,000	1,292,206	312,050	1,771,600	2,742,750	1,658,341	8,103,947
2027	327,000	1,538,300	309,050	1,772,850	2,498,250	1,662,682	8,108,132
2028	327,000	300,800	310,800	1,777,850	2,520,000	2,881,167	8,117,617
2029	887,000	300,800	312,050	1,771,350	0	6,007,306	9,278,506
2030	889,600	300,800	307,800	2,233,850	0	5,541,450	9,273,500
2031	886,200	300,800	308,300	2,231,850	0	5,545,304	9,272,454
2032	893,513	300,800	308,300	2,232,350	0	5,535,966	9,270,928
2033	889,700	300,800	312,800	2,235,100	0	5,544,261	9,282,661
2034	890,138	300,800	311,550	2,234,850	0	5,544,323	9,281,661
2035	889,638	300,800	309,800	2,231,600	0	5,540,893	9,272,731
2036	888,200	2,670,800	310,000	2,233,600	0	3,173,569	9,276,169
2037	889,000	2,706,000	309,800	2,228,400	0	3,140,097	9,273,297
2038	888,600	2,756,000	309,200	2,231,200	0	0	6,185,000
2039	887,000	0	308,200	9,036,600	0	0	10,231,800
2040	<u>889,200</u>	<u>0</u>	<u>306,800</u>	<u>9,032,400</u>	<u>0</u>	<u>0</u>	<u>10,228,400</u>
Total ²	\$13,283,788	\$15,205,738	\$6,196,050	\$54,117,600	\$10,133,750	\$60,078,460	\$159,015,385

¹Does not include the portion of the Series 2013B Bonds which will be defeased with proceeds of the Series 2020 Bonds.

²Totals may not add due to rounding.

THE ISSUER

Description of the District

The District is a special purpose district located primarily in Spartanburg County, South Carolina (the “County”) with a small area in Cherokee County, South Carolina. Special purpose districts are limited purpose local governments created by or pursuant to Acts of the South Carolina General Assembly. The District is a body corporate and politic and is a political subdivision of the State of South Carolina (the “State”).

The County is located in the northwest piedmont section of the State on the I-85 corridor between Atlanta, Georgia and Charlotte, North Carolina. The County has an area of 813 square miles and is bordered on the north by the State of North Carolina, on the east by Cherokee and Union Counties, on the west by Greenville County and on the south by Laurens County. The County includes the City of Spartanburg, South Carolina (the “City”), which is the county seat and the eighth largest city in the State. The City is located approximately 175 miles northeast of Atlanta, Georgia and approximately 75 miles southwest of Charlotte, North Carolina.

The District was originally created as the “Spartanburg Metropolitan District” by the South Carolina General Assembly through Act No. 556 of 1929. Its original purpose was to provide interceptor trunk lines and sewerage treatment facilities within the District’s boundaries, and to provide a method by which communities within the District could be designated “sub-districts” for the purpose of providing sewage collection lines.

There is currently one subdistrict. “Subdistrict B”, comprised of areas north of the City, was created pursuant to the provisions of Act No. 556 of 1929.

The General Assembly further empowered the District through Act 1503 of 1970, as amended, to provide sewage collection services in addition to transportation and treatment services. Although the duty of establishing and constructing sewage collection lines remains the responsibility of Subdistrict B within its service area, the District since the adoption of Act 1503 of 1970 has assumed primary responsibility for providing sewage collection service to other areas of the District, including those areas within the boundaries of municipalities and of other special purpose districts which provide waterworks service. In each instance in which the District has expanded its service responsibilities, it simultaneously has expanded its boundaries, including, a small area in Cherokee County, South Carolina. See “THE SEWER SYSTEM – Service Area; Facilities” herein.

Approximately 63% of the property in the County is located within the District, and property located within the City comprises approximately 24% of the assessed value of the property located within the District. The District contains approximately 214 square miles and embraces practically all of the industrial area around the City.

District Management

The Commission serves as the governing body of the District. This Commission consists of seven members: three of the Commissioners serve ex officio by virtue of their office as duly elected Commissioners of Public Works of the City of Spartanburg (the “CPW”, which operates the City of Spartanburg Water System, hereafter referred to as the “Water System”); the Mayor of the City also serves as a Commissioner ex officio. The remaining three Commissioners are elected from and must reside in the area of the District outside the corporate limits of the City.

The current members of the Commission, their occupations, and terms of office are shown in the following table:

<u>Name</u>	<u>Occupation</u>	<u>Expiration of Term</u>
Louie W. Blanton, Chairman	Banker	November 2022
Barbara J. Barnes	Consultant	November 2022
Jeff Horton	Financial Services	November 2022
Horace C. Littlejohn, Jr.	Personnel/Administration	November 2025
John D. Montgomery	Real Estate Executive	November 2023
Angela M. Viney	Nonprofit Director	November 2021
June L. White	Mayor, City of Spartanburg	January 2022

The Chief Executive Officer of the District is responsible for the overall functioning of the District which includes operational, maintenance, administration, planning and technical aspects. The Chief Executive Officer is assisted by the Chief Operating Officer and the Chief Financial Officer.

Sue G. Schneider was appointed Chief Executive Officer of the District in 2007. Ms. Schneider earned a Bachelor of Science degree in Landscape Architecture from The Ohio State University in 1978, a Master of Science degree in Environmental Science from the University of Cincinnati in 1987 and a Master of Business Administration degree from Wake Forest University in 2003. Ms. Schneider's experience includes over 30 years in water/wastewater consulting, hazardous/industrial waste management, and environmental/regulatory management.

G. Newton Pressley was employed by the District in 1986 and is the Chief Financial Officer. He also serves as Secretary/Treasurer of the Commission. Mr. Pressley received a bachelor's degree in Accounting from the University of South Carolina in 1977. Mr. Pressley's experience includes over 30 years as the chief financial officer with water/wastewater utilities.

Robert F. Walden was employed by the District in 1977 and is the Chief Operating Officer. Mr. Walden has a very diverse operation and maintenance background with over 40 years of experience in the drinking water industry and 22 years of experience in wastewater collection.

Charles E. Jackson was employed by the District in 1996 and is the Capital Projects Engineer, Mr. Jackson is a licensed professional engineer and received his bachelor's degree in Civil Engineering from Clemson University in 1982. Mr. Jackson has over 36 years of experience with various civil and environmental projects, with a majority related to the water/wastewater industry.

Currently, the District has approximately 74 full-time and part-time employees.

Budget

The District's budget process is coordinated annually by the Chief Financial Officer. The key steps in the budget process are as follows:

- Coordinate department budget requests, including updating of staffing plans, preparation of depreciation schedules, and preparation of line-item budgets
- Completion of District-wide budget information, including revenues, flow estimates, cost allocations, etc.
- Revenue and expenditure data are inputted into a computerized financial planning and rate setting model and a review of the capital improvement program is conducted by the District's management
- Rates and five-year projections of revenues and expenses are provided to the District by the District's rate and feasibility consultants
- Budget presented to the Commission for review
- Public hearing advertised and held prior to final approval of budget, tax levy and user charges.

Financial Factors

Five-Year Summary of Net Earnings. Set forth on the following page is a summary of the net income and Net Earnings available for debt service and debt service coverage of the District based on audited financial statements for the Fiscal Years ended June 30, 2015 through June 30, 2019. The summary should be read in conjunction with the audited financial statements of the District for the applicable Fiscal Years. The audited financial statements with respect to the District for the Fiscal Year ended June 30, 2019, are included as Appendix C hereto.

Fiscal Years	Restated 2015	2016	Restated 2017	Restated 2018	2019
Net Income					
Operating Revenues	\$21,416,584	\$24,204,021	\$26,330,277	\$26,118,922	\$27,146,609
Operating Expenses Before Depreciation & Amortization	(13,862,028)	(14,147,144)	(14,523,095)	(14,501,674)	(15,887,314)
Operating Income Before Depreciation & Amortization	7,554,556	10,056,877	11,807,182	11,617,248	11,259,295
Depreciation	(9,640,858)	(10,095,657)	(10,371,935)	(10,887,736)	(10,421,350)
Operating Income (Loss)	(2,086,302)	(38,780)	1,435,247	729,512	837,945
Non-operating Revenues					
Ad Valorem Taxes	4,933,591	5,024,690	6,038,111	6,340,946	6,783,557
Other Non-operating Revenues	391,386	624,630	778,754	1,088,175	1,350,608
Non-operating Expenses	(6,878,900)	(6,611,994)	(7,060,716)	(6,716,137)	(6,738,350)
Capital Contributions	2,475,057	3,334,211	3,678,468	2,004,843	1,983,221
Net Income (Loss)	<u>\$ (1,165,168)</u>	<u>\$ 2,332,757</u>	<u>\$ 4,869,864</u>	<u>\$ 3,447,339</u>	<u>\$ 4,216,981</u>
Net Earnings					
Net Income (Loss)	\$ (1,165,168)	\$ 2,332,757	\$ 4,869,864	\$ 3,447,339	\$ 4,216,981
Less: (Gain) loss on Sale of Capital Assets	6,931	(69,992)	(106,302)	(150,414)	(79,784)
Less: Restricted Investment Income	(18,522)	(29,724)	(157,282)	(270,665)	(309,654)
Less: Capital Contributions	(2,475,057)	(3,334,211)	(3,678,468)	(2,004,843)	(1,983,221)
Less: <i>Ad Valorem</i> used for GO Debt Service (1)	(1,783,899)	(1,854,135)	(2,967,750)	(3,219,960)	(3,215,995)
Less: Transfers Into Rate Stabilization Fund	(7,918)	(14,647)	(251,016)	(937,209)	(85,150)
Plus: Transfers Out of Rate Stabilization Fund	800,000	385,000	-	-	-
Plus: Excess Transfers In Over Out	-	-	251,016	937,209	85,150
Plus: Depreciation	9,640,858	10,095,657	10,371,935	10,887,736	10,421,350
Plus: Interest Expense	6,314,603	6,611,994	6,842,545	6,716,137	6,738,350
Plus: Bond Issuance Costs	517,554	-	218,171	-	-
Plus: Pension Adjustment	74,972	74,908	226,865	292,681	1,057
Plus: OPEB Adjustment	-	-	-	(53,503)	(74,539)
Net Earnings per Revenue Bond Covenant	<u>\$11,904,354</u>	<u>\$14,197,607</u>	<u>\$15,619,578</u>	<u>\$15,644,508</u>	<u>\$15,714,545</u>
Debt Service Requirement Coverage, Per Covenant					
Revenue Bond Debt Service	\$ 9,394,938	\$ 9,092,681	\$ 9,090,061	\$ 9,043,103	\$ 9,049,389
GO Bond Debt Service Paid with Revenues (1)	-	-	-	-	-
Debt Service Covenant for Coverage Test	<u>\$ 9,394,938</u>	<u>\$ 9,092,681</u>	<u>\$ 9,090,061</u>	<u>\$ 9,043,103</u>	<u>\$ 9,049,389</u>
Debt Service Coverage Ratio Based on Revenue Bond Coverage (2) (3)	1.27	1.56	1.72	1.73	1.74
Total Debt Service Coverage Calculation					
Net Earnings per Revenue Bond Covenant	\$11,904,354	\$14,197,607	\$15,619,578	\$15,644,509	\$15,714,545
Plus: Ad Valorem Taxes Used for GO Debt Service	1,783,899	1,854,135	2,967,750	3,219,960	3,215,995
Adjusted Net Earnings	<u>\$13,688,253</u>	<u>\$16,051,742</u>	<u>\$18,587,328</u>	<u>\$18,864,469</u>	<u>\$18,930,540</u>
Total District Debt Service	\$10,085,583	\$10,946,816	\$12,057,811	\$12,263,063	\$12,265,384
Total District Debt Service Coverage (4)	1.36	1.47	1.54	1.54	1.54

- (1) Based on percentages provided in the District Financial Planning and Rate Model Schedule 2B Debt Service Cost Allocations to determine portion of GO debt attributable to T&T (treatment and transportation) and Collection.
- (2) The coverage is determined by dividing the Net Earnings per Revenue Bond Covenant by the Total Revenue Bond Debt Service.
- (3) The Revenue Bond Coverage must be at least 110% to be in compliance with the Revenue Bond Covenant.
- (4) The coverage is determined by dividing the Adjusted Net Earnings by the Total System Debt Service Coverage.

Management's Discussion of Recent Operating Results. Management's discussion of the District's financial condition as of June 30, 2019, is provided as part of the Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2019, attached hereto as Appendix C.

The operations of the District for the Fiscal Year ended June 30, 2019 ("2019 Fiscal Year") including the District's revenues and expenses were consistent with the amounts budgeted for the 2019 Fiscal Year, and a summary of the District's results of operations for the 2019 Fiscal Year is included in the table on the following page. Further, with respect to the current Fiscal Year ending June 30, 2020 ("2020 Fiscal Year"), the operations of the District to date have been consistent with expectations of the management of the District as set forth in the budget for the 2020 Fiscal Year (on an unaudited basis) and, to date, there have been no material deviations from the budget. Moreover,

the operating results of the District to date for the 2020 Fiscal Year (on an unaudited basis), do not reflect any material decreases in revenue or increases in expenses when compared to the operating results for the prior fiscal years.

Retirement Plans

The District is a member of the South Carolina Retirement System (“SCRS”), one of four defined benefit retirement systems maintained by the Retirement Division of the State Fiscal Accountability Authority. Each system publishes their own component unit financial report. The systems provide retirement, death and disability benefits to State employees, public school employees and employees of counties, municipalities and certain other State political subdivisions. Each system is independent. Assets may not be transferred from one system to another or used for any purpose other than to benefit each system’s participants. SCRS is a cost-sharing, multiple-employer pension system that benefits employees of public schools, the State and its political subdivisions including the District. Membership is required as a condition of employment. In fiscal year 2020 employees contribute at 9% of their salary and employers at 15.41%. In addition to those rates, participating employers of SCRS contribute 0.15% of payroll to provide a group life insurance benefit for their participants.

The District’s contributions to the SCRS for the last five fiscal years are as follows:

<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$344,422	\$364,896	\$390,224	\$410,479	\$501,643

The District has paid all required contributions for fringe benefits as they have come due and there are no liabilities for underfunding of such fringe benefits.

GASB 75

The District implemented Governmental Accounting Standards Board Statement No. 75 (“GASB 75”) in fiscal year 2018. GASB 75 requires the District to recognize a net OPEB (other post-employment benefits) liability and any related deferred outflows and inflows of resources along with a more comprehensive measure of OPEB expense for the District’s OPEB plan on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e. the Statement of Net Position) and requires more extensive note disclosures. The District’s OPEB expense in 2019 was \$343,695. However, the adoption resulted in the restatement of the District’s net position as of July 1, 2017 for its financial statements to reflect the reporting of a net OPEB liability and deferred outflows of resources for the District’s OPEB plan in accordance with GASB 75. Net position of the District’s financial statements as of July 1, 2017, was decreased by \$3,689,983, reflecting the cumulative change in the accounting principle related to the adoption of GASB 75. Changes in the District’s net OPEB liability for fiscal year 2019 are shown in the following table.

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance as of December 31, 2017	\$6,195,143	\$2,224,078	\$3,971,065
Charges for the year:			
Service Cost	216,360	-	216,360
Interest	290,060	-	290,060
Difference between expected and actual experience	(24,263)	-	(24,263)
Contributions – employer	-	468,293	(468,293)
Net investment income	-	33,054	(33,054)
Benefit payments	(179,293)	(179,293)	-
Net Changes	<u>302,864</u>	<u>322,054</u>	<u>(19,190)</u>
Balance as of December 31, 2018	<u>\$6,498,007</u>	<u>\$2,546,132</u>	<u>\$3,951,875</u>

Insurance

Subject to specific immunity set forth in the State Tort Claims Act, local governments including the District are liable for damages not to exceed \$300,000 per incident/person and \$600,000 per occurrence/aggregate. No punitive or exemplary damages are permitted under the Act. Insurance protection to units of local government is provided from either the South Carolina Insurance Reserve Fund established by the State Fiscal Accountability Authority, private carriers, self-insurance or pooled self-insurance funds. The District currently maintains liability insurance coverage with the South Carolina Insurance Reserve Fund. In the opinion of the Chief Executive Officer, the amount of liability coverage maintained by the District is sufficient to provide protection against any loss arising under the State Tort Claims Act.

Recent Developments

The United States, including the State and the Issuer, is currently in the midst of a pandemic caused by a novel coronavirus and resulting disease known as COVID-19. The pandemic has led to a declaration of emergency by the Governor of South Carolina (the “Governor”) and the issuance of progressively stringent orders by the Governor in March and April 2020 including, but not limited to, a stay-at-home order and the closure of (1) public schools for the remainder of the school year, (2) dining establishments (except for take-out services), (3) non-essential businesses and (4) public access to recreational sites. On April 20, 2020 the Governor announced the loosening of some of those restrictions, including the reopening of certain retail establishments.

The Issuer’s large commercial and industrial meters are read monthly, typically on the 20th of the month. The most recent usage data through April 20, 2020 shows that aggregate usage for the Issuer’s top ten customers is comparable with the usage in the previous month and in the same month of the prior year. The aggregate usage in April 2020 includes increased usage by some customers and reduced usage by other customers, including Wofford College which transitioned its students to at-home instruction in March 2020. Revenues and expenses for the Issuer for the nine-month period ending March 31, 2020 are tracking comparably with the budget for the 2020 Fiscal Year.

The COVID-19 pandemic has altered and is continuing to alter the behavior of businesses and people in a manner that is having negative effects on global and local economies, including the Issuer’s economy. In addition, global financial markets have experienced significant volatility attributed to concerns over COVID-19. The impact of the pandemic on the System, the Issuer’s operations, and the local, regional, national and international economies cannot be predicted due to the dynamic nature of the outbreak, including uncertainties relating to its duration and severity, as well as what actions may be taken by governmental authorities, businesses and institutions to attempt to contain or mitigate its impact.

THE SEWER SYSTEM

Service Area; Facilities

The current boundaries of the District encompass approximately 214 square miles and include the City, the municipalities of Cowpens, Landrum, Pacolet and Central Pacolet, and portions of three other special purpose districts, Inman-Campobello Water District, Liberty-Chesnee-Fingerville Water District, and the Startex-Jackson-Wellford-Duncan Water District, as well as a small area in Cherokee County, South Carolina.

The District also includes within its boundaries portions of the Enoree River, Lawson Fork Creek, Fairforest Creek, Pacolet River, North Tyger River, Middle Tyger River and South Tyger River basins. The District presently operates eight regional treatment facilities: Clifton-Converse, Cowpens, Fairforest, Lower North Tyger River, Pacolet Area, Fingerville, Page Creek (Landrum), and South Tyger River. In addition, the District operates one large pump station at Lawson Fork, 77 pump stations throughout the area, and 1,022 miles of pipeline, of which 371 miles was acquired from the City of Spartanburg as of January 1, 2008. The largest treatment plant – Fairforest – accounts for approximately 85% of total average daily flows. As of June 30, 2019, the District had 45,226 customers.

With the exception of a limited number of residential subdivisions and several small industrial plants which maintain private wastewater collection and treatment systems, the District provides wastewater transportation and

treatment services to all properties connected to sewer systems within its boundaries. All of the sewer interceptors or main transportation lines utilized to provide this service are owned, operated and maintained by the District.

Collection Services

With the exception of residents of Subdistrict B, which provides sewage collection service to its residents, the District provides sewage collection services to all of its “transportation and treatment” customers, including residents (whose properties are connected to sewer lines) of the municipalities and special purpose districts located within the District’s boundaries.

With the exception of residents of the City of Landrum, which has its own rate schedule (as discussed in “Billing and Collection Procedures”), all customers of the District are assessed the same transportation and treatment charge to recover the cost of operating and maintaining the District’s treatment plants and interceptor systems. Customers of the District for whom the District provides collection service also are assessed an additional collection charge to recover costs associated with owning, operating and maintaining the District’s collection system. See “User Charge.”

For further information regarding the relationships between the District and the above-mentioned municipalities and water districts, see “Charges and Collections.”

Comparative General Statistics

The District has improved and expanded the System over the years. The following table depicts the trend in miles of sewer lines and annual amount of user revenue charges over the past five fiscal years:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Miles of Sewer Line	988	999	1,012	1,022	1,043
Total Annual Amount of User Charge Revenues	\$20,123,998	\$22,919,183	\$25,081,281	\$24,701,500	\$24,917,110

Source: 2019 Comprehensive Annual Financial Report

Revenues of the System

From its creation in 1929 until January 1, 1979, the District obtained the moneys with which to pay operational and maintenance costs of its facilities and to provide debt service on its bonded indebtedness through means of an ad valorem tax levied upon taxable property located within its territorial limits. However, in order to comply with the provisions of the Federal Water Pollution Control Act which requires all recipients of grants provided by the Environmental Protection Agency of the United States to impose a sewer user charge sufficient in amount to cover the cost of operating and maintaining the entity’s sewer facilities, the District, after completing a comprehensive study, instituted a sewer user charge on January 1, 1979. The ad valorem tax was reinstated in 1990 to defray a portion of the debt service cost applicable to the treatment plants and interceptor trunk lines. Although currently ad valorem taxes are used primarily to pay debt service on the District’s general obligation indebtedness, Act No. 1503 provides that ad valorem tax moneys also may be used to provide for the administrative expenses of the District and for the costs of maintaining and operating the District’s interceptors and sewerage treatment facilities. The Commission is responsible for determining the sewer rates and charges imposed upon the customers of the District. It has been and continues to be the policy of the Commission to annually review rates and charges to ensure that the District generates sufficient funds to meet budget expenditures.

Largest Customers

The following table is a list of the District's largest customers for the Fiscal Year ended June 30, 2019. No single customer accounted for more than 2.35% of total revenues, including revenues from high strength (industrial waste) surcharges:

<u>Customer</u>	<u>Total</u>	<u>% Gross Revenues</u>
Spartanburg Regional Medical Center	\$ 639,138	2.35%
Pet Inc. Dairy Division	359,260	1.32
Wofford College	262,599	0.97
BASF Corporation	230,010	0.85
Spartanburg Housing Authority	217,703	0.80
Michelin Tire Corp.	213,616	0.79
Contec Inc.	198,916	0.73
Blackman Uhler Manufacturing	192,927	0.71
Parkside at Laurel West LLC	133,063	0.49
SC Department of Corrections	<u>130,641</u>	<u>0.48</u>
Totals	\$2,577,873	9.49%

Source: Spartanburg Sanitary Sewer District

Number of Customers

The following table shows the number of customers of the District for the years shown:

<u>Fiscal Year Ended June 30</u>	<u>Total Number of Accounts</u>
2015	40,857
2016	41,507
2017	42,223
2018	44,333
2019	45,226

Source: Spartanburg Sanitary Sewer District

Sewer Usage

The following table sets forth the historical demand for each of the calendar years shown for wastewater treated by the System:

<u>Calendar Year</u>	<u>Billion Gallons</u>	<u>Average MGD(1)</u>
2015	5.189	14.218
2016	4.482	12.207
2017	4.307	11.742
2018	4.953	13.463
2019	4.852	13.357

(1) Million gallons per day of effluent discharge.

Source: Spartanburg Sanitary Sewer District

Schedule of Treatment Plants

The following table sets the permitted capacity and average flow of each of the District's treatment plants for Fiscal Year 2019.

<u>Treatment Plant</u>	<u>Permitted Capacity (MGD)</u>	<u>Average Flow (MGD)</u>
Clifton-Converse	0.290	0.158
Cowpens	1.500	0.233
Fairforest	25.000	12.271
Fingerville	0.020	0.004
Lower North Tyger River	3.100	1.336
Pacolet Mills	0.300	0.096
Page Creek	1.000	0.400
South Tyger River	<u>1.000</u>	<u>0.232</u>
	32.210	14.730

Source: Spartanburg Sanitary Sewer District

User Charge

The user charge is either based on the quantity of water received by the individual user as measured through the water meter of the public water supply agency supplying water to the user or, as in the instance of certain industries, is based on the quantity of wastewater discharged into the District's facilities and measured through wastewater metering devices. The current user charge rate structure (effective August 1, 2016) is as follows:

Base Charge

<u>Meter Size</u>	<u>Monthly</u>	<u>Bi-monthly</u>
5/8"	\$ 5.70	\$ 11.40
1"	11.94	23.87
1-1½"	22.33	44.65
2"	34.80	69.60
3"	63.90	127.80
4"	105.47	210.94
6"	209.40	418.80
8"	334.11	668.22
10"	479.61	959.22

<u>Volume Charge</u> (per 100 gallons):	Collection, Treatment and Transportation Charge ⁽¹⁾	\$0.675
	Treatment and Transportation Charge ⁽²⁾	\$0.483

(1) For customers within the District boundaries.

(2) For customers in the Metro Subdistrict B.

The District maintains a detailed cost accounting system which keeps track of the cost of providing each level of sewer service for which the sewer user charge rates are established. The information accumulated in the cost accounting system is utilized in conjunction with the approved expenditure budget to calculate the user charge rates. Rate calculations are made by the District staff and reviewed by an independent rate consultant.

In addition to the user charge, the District also charges a capacity fee for all new connections to the System, an industrial wastewater surcharge and service charge to certain industrial users producing high strength waste, and a front-foot assessment for non-Subdistrict residents who petition for the installation of collection lines. These fees are discussed in "Capacity Fee," "Industrial Wastewater Surcharge and Service Charge," and "Front Foot Assessment."

For a discussion of how the District's charges are billed and collected, see "—Charges and Collections" herein.

Capacity Fee

The District charges a capacity fee which is a one-time charge for new connections to the System. It is based on the concept that the new user should pay a "pro-rata" share of the basic infrastructure which has been or will be constructed to meet the needs of that new user. The revenue derived from the capacity fees is designed to be in an amount necessary to offset the cost of capital improvements necessitated by such new connections. The capacity fee was established by the District upon recommendation of its consulting engineers, and is based upon the net depreciated assets of the District. The Capacity Fee Structure was updated for Fiscal Year 2020, effective September 30, 2019. The uniform fee is \$850 per Residential Equivalent Unit (REU), which is equal to 300 gallons per day. The wastewater discharge from a single-family residence is equal to one REU.

Industrial Wastewater Surcharge and Service Charge

Industrial users are monitored and sampled to determine the concentration of biochemical oxygen demand and suspended solids and charged an additional fee to defray the cost of treating high strength waste. This surcharge is imposed in accordance with a formula based on the strength of waste of the particular industrial user. The District bills all surcharges directly to industrial users.

The industrial wastewater service charge also is imposed on all industrial users to defray the cost to the District for administering an industry's wastewater discharge permit and the cost incurred by the District in providing analytical monitoring of an industry's discharge.

Front Foot Assessment

The front foot assessment is designed to cover the cost of installing sewage collection lines, and is only charged to those property owners outside the Subdistricts for whom collection lines are installed under a petition process.

Charges and Collections

The District has entered into contracts or has arrangements with each of the water providers, i.e., municipalities and special purpose districts, within its boundaries whose customers receive sewage collection service and/or sewerage transportation and treatment service from the District. In some cases, these water providers are responsible for billing and collecting the District's charges; in others, these water providers provide water use and other account information to the District. Regardless of which governmental entity sends the bill, all customers of the District receive a bill which includes the District's base charge and transportation and treatment charge portions of the user charge. Those customers who are also provided collection services by the District also are billed the collection charge portion of the user charge. See "User Charge."

Subdistrict B provides sewage collection services to most of its service area, and thus the District receives only the base charge and transportation and treatment charge portions of the user charge from Subdistrict B residents. None of the other municipalities or special purpose districts located within the boundaries of the District, however, provides collection service, and thus the District receives the entire user charge from residents of those areas.

With some exceptions (which are noted below), bills sent out by these water providers generally apply the District's rate schedule to a customer's retail water usage, as reported by the water provider. Although each of these billing contracts has its own specific terms, they generally are for a one-year term subject to automatic renewal and the right to terminate upon 60 or 90 days written notice; require the water provider to provide the District with reports reflecting water volumes used and individual and total sewer charges billed and collected and to remit collected charges either monthly or bimonthly in arrears; authorize the water provider to cut off water service for failure to pay sewer charges; and to pay the water providers for such billing and collection services based either on a flat fee or a percentage of collection basis. For customers of water providers with which there is no written billing agreement and for certain high-volume users, the District's staff provides separate sewer bills based upon reported water usage.

A brief summary of each of the water providers and the nature of the contractual relationship between the District and each such provider follows:

Spartanburg Water System

Pursuant to a contract dated as of December 5, 1978, the Water System sends a combined bill at regular intervals for water and sewer service, which bill includes the District's user charge based on the District's rate schedule, to all Water System customers who are connected to the District's collection system and who are not otherwise billed by another water provider. Collected charges are remitted to the District on a monthly basis.

The District and the Water System share staff to handle administrative, customer service and billing and collection functions.

Subdistricts

Subdistrict B: Pursuant to a contract dated as of December 1, 1985 and with some exceptions (discussed herein below), Subdistrict B sends a combined bill for water and sewer service to each Subdistrict B customer who either uses the Subdistrict B's sewer collection system or who otherwise discharges wastewater to the District's transportation and treatment facilities. Bills also are sent to residents of the Subdistrict B who are not water customers of Subdistrict B. These bills include a collection charge based on a rate schedule established by Subdistrict B, and a base charge and a transportation and treatment charge based on the District's rate schedule. Collected charges are remitted to the District on a semimonthly basis.

Municipalities

Central Pacolet: The Water System provides water to the residents of the Town of Central Pacolet and accordingly sends a combined water and sewer bill directly to those Town water customers who also are connected to the District's sewage collection system. District charges are based upon the District's rate schedule and are remitted upon collection to the District in accordance with the agreement between the District and the Water System.

Cowpens: The Water System provides water to the residents of the Town of Cowpens and accordingly sends a combined water and sewer bill directly to those Town water customers who also are connected to the District's sewage collection system. District charges are based upon the District's rate schedule and are remitted upon collection to the District in accordance with the agreement between the District and the Water System.

Landrum: The Water System provides water to the residents of the City of Landrum and accordingly sends a combined water and sewer bill directly to those City water customers who also are connected to the District's sewage collection system. District charges are based upon the District's rate schedule and are remitted upon collection to the District in accordance with the agreement between the District and the Water System.

Pacolet: The Water System provides water to the residents of the Town of Pacolet and accordingly sends a combined water and sewer bill directly to those Town water customers who also are connected to the District's sewage collection system. District charges are based upon the District's rate schedule and are remitted upon collection to the District in accordance with the agreement between the District and the Water System.

The City of Spartanburg: The Water System provides water service to the residents of the City and accordingly provides billing and collection services for the City. The City transferred ownership and operation of its sewer system to the District in accordance with an agreement effective January 1, 2008. The Water System sends a combined bill for water and sewer service to each City customer. District charges are based upon the District's rate schedule and are remitted upon collection to the District in accordance with the agreement between the District and the Water System.

Water Districts

Inman-Campobello Water District: Pursuant to a contract dated November 26, 1997, the Inman-Campobello Water District sends a combined water and sewer bill directly to those Water District customers who also are connected to the District's sewage collection system, which bill includes charges based upon the District's rate

schedule, with the exception of certain large volume water users which are billed separately by the District. Collected charges are remitted to the District on a monthly basis.

Liberty-Chesnee-Fingerville Water District: Pursuant to a contract dated as of March 28, 2000, the Liberty-Chesnee-Fingerville Water District sends a combined water and sewer bill directly to those Water District customers who also are connected to the District's sewage collection system, which bill includes charges based upon the District's rate schedule. Collected charges are remitted to the District on a monthly basis.

Startex-Jackson-Wellford-Duncan Water District: Pursuant to a written request dated June 2, 1997, Startex-Jackson-Wellford-Duncan Water District sends a combined water and sewer bill directly to those Water District customers who also are connected to the District's sewage collection system, which bill includes charges based upon the District's rate schedule. Collected charges are remitted to the District on a monthly basis.

Regulation and Permits

Federal Regulation: The System is subject to regulation by the U.S. Environmental Protection Agency ("EPA"). EPA involvement is primarily in the areas of approving funds for projects under EPA grants and establishing and interpreting policies for executing federal water quality and wastewater treatment facilities construction grant programs. The System is currently under no consent decrees from the EPA.

State Regulation: The System is subject to regulation by South Carolina Department of Health and Environmental Control ("DHEC"). DHEC is responsible for ensuring compliance with federal and State water quality standards, approving plans and specifications for wastewater projects within the State, issuing operating and construction permits, in addition to other administrative functions which have been delegated to DHEC by EPA. From time to time, DHEC has entered into administrative consent orders with the District to resolve issues of alleged permit non-compliance and other compliance issues. The District is in compliance with requirements for payment of civil penalties or corrective measures under such consent orders.

The District is permitted by DHEC in accordance with the National Pollutant Discharge Elimination System ("NPDES"). These permits set certain criteria and limits for treated wastewater to meet prior to discharge. The permits also impose specific environmental requirements on the management and processing of residuals generated as a product of the wastewater treatment process, such as sludge handling, composting, land farming and landfilling. Annual NPDES permit compliance averages 99.99 % for all of the District's facilities.

Capital Improvement Plan

The System maintains a multi-year capital improvement plan, which is updated annually, that identifies the needs of its service area and provides for compliance with DHEC regulations and NPDES permit limitations. The current multi-year plan includes, among other things, collection system rehabilitation projects, and upgrades to the Lawson Fork Basin, Fairforest Basin, Ben's Creek Pump Station, Beaverdam Creek Pump Station and Cowpens Facility, and numerous line and extension projects.

The estimated cost of the current capital improvement plan for the Fiscal Years ending June 30, 2021 through June 30, 2025, is \$27,290,000. The System presently intends to fund the expenditures through a combination of sources, including capital, collection system rehab fund and existing bond funds. The following table sets forth the estimated sources of funds to be used to defray the cost of the current capital improvement plan.

<u>Funding Sources</u>	<u>Amount</u>
Capital	\$17,340,000
Collection System Rehab Fund	6,000,000
Existing Bond Funds	2,000,000
Spartanburg County	1,450,000
Grant	<u>500,000</u>
Total Sources	\$27,290,000

Cyber Security Management

The Issuer, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations and faces multiple cyber security threats including, but not limited to, hacking, phishing, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, “Systems Technology”). As a recipient and provider of sensitive information, the Issuer may be the target of cybersecurity incidents that could result in adverse consequences to the Issuer and its Systems Technology, requiring a response action to mitigate the consequences.

Cyber security incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the Issuer’s Systems Technology for the purposes of misappropriating assets or information or causing operational disruption and damage. The Issuer has implemented certain controls, including data and network security measures, malware protection, security configuration, website filtering and protection, and user training, to mitigate the risk of cyber security breaches from internal sources or activities, and the Issuer has in place a cyber security insurance policy. In addition, in 2019, the Issuer developed and implemented a Cyber Security Response Plan which remains in effect.

Annexation and Modification of Boundaries

South Carolina statute law provides various methods whereby municipalities may annex territory. Several methods are purely consensual, with the requirement that all owners of the property annexed consent to the annexation. There are also provisions for annexation (a) upon the submission of a petition signed by 75% or more of the owners of real property who own at least 75% of the assessed value of the property to be annexed, and (b) upon the holding of a referendum in the area to be annexed subsequent to a petition signed by 25% of the electors in the area proposed to be annexed being submitted to the municipal council. South Carolina law makes no provision for the disposition of special purpose district assets and service rights in the case of purely consensual annexations. However, in the case of the 75% petition and 25% followed by referendum methods of annexation, South Carolina law requires an annexing municipality and special purpose districts affected by a proposed annexation to reach agreement for the transfer of service rights and assets from such districts to the municipality. *See* Sections 5-3-310 to 5-3-315, Code of Laws of South Carolina, 1976, as amended. Under this law, the municipalities in their sole discretion are authorized to provide the service formerly provided by districts to the newly annexed area. However, until such agreement has been reached, the districts retain the right to continue providing their respective services, despite the annexation being deemed effective.

South Carolina law further provides for the alteration of the boundaries of special purpose districts, such as the District and the merger of special purpose districts pursuant to Sections 6-11-410 through 6-11-650, Code of Laws of South Carolina, 1976, as amended. The alteration is accomplished through an ordinance of the governing body of the county in which the special purpose district is located. In the case of *Berry v. Weeks*, 279 S.C. 543, 309 S.E.2d 744 (1983), the South Carolina Supreme Court held that a county governing body may not diminish the boundaries of a special purpose district to the point that it may no longer operate. In the event the county’s governing body causes the merger of two or more special purpose districts, the new entity shall assume all properties and liabilities of the antecedent districts, except as may otherwise be set forth in a petition by such districts for consolidation.

UNITED STATES BANKRUPTCY CODE

The obligation of the Issuer under the Resolution and the Series 2020 Bonds should be considered with reference to Chapter 9 of the United States Bankruptcy Code, 11 U.S.C. § 901, *et seq.*, as amended (the “Bankruptcy Code”) and other laws affecting creditors’ rights and public instrumentalities generally. Chapter 9 permits a municipality, political subdivision, public agency, or other instrumentality of a state that is insolvent or unable to meet its debts as such debts mature to file a petition in the United States Bankruptcy Court for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of its creditors; provides that the filing of the petition under that Chapter operates as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner but does not limit or impair the power of the state to control a municipality by legislation; directs a petitioner to file a plan for the adjustment of its debts; permits the petitioner in its plan to modify the rights to payment of its creditors; and provides that the plan must be accepted in writing by or on behalf of the creditors of each class of claims holding at least two-thirds in amount and more than one-half in number of the creditors

which have accepted or rejected the plan. The plan may be confirmed notwithstanding the negative vote of one or more classes of claims if the court finds that the plan is in the best interest of creditors, is feasible, and is fair and equitable with respect to the dissenting classes of creditors. A petitioner has the right to reinstate or otherwise modify indebtedness under its plan varying from the original maturity schedule of such indebtedness notwithstanding any provision in the documents under which the indebtedness arose relating to the insolvency or financial condition of the debtor before the confirmation of the plan, the commencement of a case under the Bankruptcy Code, or the appointment of or taking possession by a trustee in a case under the Bankruptcy Code or by a receiver or other custodian prior to the commencement of a case under the Bankruptcy Code.

ENFORCEABILITY OF REMEDIES

The remedies available to the owners of the Series 2020 Bonds upon the event of default under the Resolution are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the Bankruptcy Code, the Resolution and the Series 2020 Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2020 Bonds (including Bond Counsel's approving opinion) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the laws of creditors enacted before or after such delivery.

TAX MATTERS

Federal Income Tax

Generally. INTEREST ON THE SERIES 2020 BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. OWNERS OF THE SERIES 2020 BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES AND FOREIGN TAX CONSEQUENCES OF THEIR ACQUISITION, OWNERSHIP AND DISPOSITION OF THE SERIES 2020 BONDS.

The following is a summary of certain U.S. federal income tax considerations of the purchase, ownership and disposition of the Series 2020 Bonds. This summary applies to holders only if they are a Beneficial Owner of a Series 2020 Bond and acquire a Series 2020 Bond in this offering for a price equal to the issue price of the Series 2020 Bond. The issue price of the Series 2020 Bond is the first price at which a substantial amount of the Series 2020 Bonds is sold other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. For purposes of this discussion, a "**U.S. Holder**" means a Beneficial Owner of a Series 2020 Bond that, for U.S. federal income tax purposes, is: a citizen or resident alien individual of the United States; a corporation (including for this purpose any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any State thereof or the District of Columbia; an estate the income of which is subject to U.S. federal income taxation regardless of its source; or a trust (i) that is subject to the primary supervision of a court within the United States and under the control of one or more "United States persons" (as defined for U.S. federal income tax purposes), or (ii) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a "United States person."

For the purposes of this discussion, a "non-U.S. Holder" means a Beneficial Owner of a Series 2020 Bond that, for U.S. federal income tax purposes, is an individual, corporation (including for this purpose any other entity treated as a corporation for U.S. federal income tax purposes), trust or estate that is not a U.S. Holder.

This summary is based on provisions of the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations issued thereunder, and administrative and judicial interpretations thereof, all as of the date of this Official Statement and all of which are subject to change or differing interpretation (perhaps retroactively), and is for general information only. This summary addresses only Beneficial Owners of the Series 2020 Bonds that hold the Series 2020 Bonds as capital assets within the meaning of Section 1221 of the Code and does not represent a detailed description of the U.S. federal income tax consequences to prospective purchasers of the Series 2020 Bonds in light of their particular circumstances. In addition, it does not represent a detailed description of the U.S. federal income tax consequences applicable to prospective purchasers of the Series 2020 Bonds that are subject to special treatment

under the U.S. federal income tax laws, such as taxpayers subject to the alternative minimum tax, the U.S. federal estate and gift tax, U.S. expatriates, financial institutions, partnerships or other pass-through entities, or investors in such entities, individual retirement and other tax deferred accounts, dealers and traders in securities or currencies, insurance companies, tax-exempt organizations, persons holding the Series 2020 Bonds as part of a conversion, constructive sale, wash sale or other integrated transaction or a hedge, straddle or synthetic security, and U.S. Holders whose functional currency is other than the U.S. dollar. The Issuer cannot assure holders that a change in law will not alter significantly the tax considerations that are described in this summary.

If a U.S. or non-U.S. partnership (including for this purpose an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds the Series 2020 Bonds, the tax treatment of a partner generally will depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Non-U.S. partnerships also generally are subject to special tax documentation requirements.

U.S. Holders. Interest. It is expected and this discussion assumes that either the issue price of the Series 2020 Bonds will equal the stated principal amount thereof or the Series 2020 Bonds will be issued with less than a *de minimis* amount of original issue discount (“OID”). Therefore, a U.S. Holder will have ordinary interest income equal to the amount of interest paid or accrued on a Series 2020 Bond, includable in accordance with the U.S. Holder’s regular method of tax accounting for U.S. federal income tax purposes.

Disposition of the Series 2020 Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, defeasance, retirement or other disposition of a Series 2020 Bond will result in capital gain or loss equal to the difference, if any, between the amount realized on the disposition (excluding amounts attributable to accrued and unpaid interest, which, as described above, will be taxed as ordinary income to the extent not previously included in gross income by the U.S. Holder) and the U.S. Holder’s tax basis in the Series 2020 Bonds. Generally, the U.S. Holder’s tax basis for determining gain or loss on the disposition of the Series 2020 Bond will equal the purchase price paid by the U.S. Holder for the Series 2020 Bond, (i) increased by the amount of OID previously included in income by such U.S. Holder with respect to such Series 2020 Bond, if any, and (ii) decreased by any payments previously made on such Series 2020 Bond (other than payments of qualified stated interest), and further decreased by any amortized premium (if any). Such gain or loss will be long-term capital gain or loss if the Series 2020 Bond is held for more than one year as of the time of the disposition. The deductibility of capital losses is subject to limitations. U.S. Holders should consult their tax advisors regarding the treatment of capital gains and losses.

Non-U.S. Holders. Interest. The United States generally imposes a 30% withholding tax on payments of interest to non-U.S. persons. The 30% (or lower applicable treaty rate) U.S. federal withholding tax will not apply to a non-U.S. Holder in respect of any payment of interest on the Series 2020 Bonds that is not effectively connected with the conduct of a U.S. trade or business provided that such non-U.S. Holder is not a bank whose receipt of interest on the Series 2020 Bonds is described in Section 881(c)(3)(A) of the Code; and (a) provides identifying information (i.e., name and address) to the Issuer or its paying agent on IRS Form W-8BEN (or successor form), and certifies, under penalty of perjury, that such non-U.S. Holder is not a U.S. person or (b) a financial institution holding the Series 2020 Bonds on behalf of such non-U.S. Holder certifies, under penalty of perjury, that it has received the applicable IRS Form W-8BEN (or successor form) from the Beneficial Owner and provides the Issuer or its paying agent with a copy.

If a non-U.S. Holder cannot satisfy the requirements described above, payments of interest made to such non-U.S. Holder will be subject to the 30% U.S. federal withholding tax, unless such non-U.S. Holder provides the Issuer or its paying agent with a properly executed (i) IRS Form W-8BEN (or successor form) claiming an exemption from or reduction in withholding under the benefit of an income tax treaty or (ii) IRS Form W-8ECI (or successor form) stating that interest paid on the Series 2020 Bond is not subject to withholding tax because it is effectively connected with such non-U.S. Holder’s conduct of a trade or business in the United States.

If a non-U.S. Holder is engaged in a trade or business in the United States and interest on the Series 2020 Bonds is effectively connected with the conduct of that trade or business (or, if required by an applicable income tax treaty, is attributable to a permanent establishment in the United States maintained by such non-U.S. Holder), such non-U.S. Holder, although exempt from the 30% withholding tax, generally will be subject to U.S. federal income tax on that interest on a net income basis in the same manner as if such non-U.S. Holder were a “United States person” as defined under the Code. In addition, if a non-U.S. Holder is a non-U.S. corporation, it may be subject to a branch

profits tax equal to 30% (or lower applicable treaty rate) of its earnings and profits for the taxable year, subject to adjustments, that are effectively connected with the conduct by it of a trade or business in the United States. For this purpose, effectively connected interest on the Series 2020 Bond will be included in earnings and profits.

Disposition of the Series 2020 Bonds. Any gain realized on the disposition of a Series 2020 Bond by a non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax unless (i) that gain is effectively connected with the non-U.S. Holder's conduct of a trade or business in the United States (or, if required by an income tax treaty, is attributable to a U.S. permanent establishment maintained by such non-U.S. Holder), (ii) such non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition and certain other conditions are met, or (iii) in the case of disposition proceeds representing accrued interest, the non-U.S. Holder cannot satisfy the requirements of the complete exemption from withholding tax described above (and the non-U.S. Holder's U.S. federal income tax liability has not otherwise been fully satisfied through the U.S. federal withholding tax described above).

If a non-U.S. Holder's gain is effectively connected with such non-U.S. Holder's U.S. trade or business (or, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment maintained by such non-U.S. Holder), such non-U.S. Holder generally will be required to pay U.S. federal income tax on the net gain derived from the sale in the same manner as if it were a "United States person" as defined under the Code. If such a non-U.S. Holder is a corporation, such non-U.S. Holder may also, under certain circumstances, be subject to a branch profits tax at a 30% rate (or lower applicable treaty rate). If a non-U.S. Holder is subject to the 183-day rule described above, such non-U.S. Holder generally will be subject to U.S. federal income tax at a flat rate of 30% (or a reduced rate under an applicable treaty) on the amount by which capital gains allocable to U.S. sources (including gains from the sale, exchange, retirement or other disposition of the Series 2020 Bonds) exceed capital losses allocable to U.S. sources, even though the non-U.S. Holder is not considered a resident alien under the Code.

Information Reporting and Backup Withholding. In general, information reporting requirements apply to interest paid to, and to the proceeds of a sale or other disposition of a Series 2020 Bond (including a redemption) by, certain U.S. Holders. In addition, backup withholding (currently at a rate of 28%) may apply to a U.S. Holder unless such holder provides a correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules. Backup withholding generally does not apply to payments made to certain exempt U.S. persons.

In general, a non-U.S. Holder will not be subject to backup withholding and information reporting with respect to interest payments made to such holder provided that the Issuer or its paying agent has received from such holder the certification described above under "-Non-U.S. Holders-Interest" and neither the Issuer nor its paying agent has actual knowledge or reason to know that the purported non-U.S. Holder is actually a U.S. Holder. However, the Issuer or its paying agent may be required to report to the IRS and the non-U.S. Holder payments of interest on the Series 2020 Bonds and the amount of tax, if any, withheld with respect to those payments. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which the non-U.S. Holder resides under the provisions of a treaty or agreement.

Payments of the proceeds of a sale or other disposition (including a redemption) of the Series 2020 Bonds made to or through a non-U.S. office of non-U.S. financial intermediaries that do not have certain enumerated connections with the United States generally will not be subject to information reporting or backup withholding. In addition, a non-U.S. Holder will not be subject to backup withholding or information reporting with respect to the proceeds of the sale or other disposition of a Series 2020 Bond within the United States or conducted through non-U.S. financial intermediaries with certain enumerated connections with the United States, if the payor receives the certification described above under "-Non-U.S. Holders-Interest" or such holder otherwise establishes an exemption, provided that the payor does not have actual knowledge or reason to know that the purported non-U.S. Holder is actually a United States person or the conditions of any other exemption are not, in fact, satisfied.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a holder's U.S. federal income tax liability provided the required information is furnished by such holder to the IRS in a timely manner.

Net Investment Income Tax. The Code generally imposes a tax of 3.8% on the “net investment income” of certain individuals, trusts and estates for taxable years beginning after December 31, 2012. Among other items, net investment income generally includes gross income from interest and net gain attributable to the disposition of certain property, less certain deductions. Prospective purchasers should consult their own tax advisors regarding the possible implications of this legislation in their particular circumstances.

State Tax Exemption

Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina (“Bond Counsel”) is of the opinion that the Series 2020 Bonds and the interest thereon are exempt from all taxation by the State of South Carolina, its counties, municipalities and school districts except estate, transfer or certain franchise taxes. Interest paid on the Series 2020 Bonds is currently subject to the tax imposed on banks by Section 12-11-20 of the Code of Laws of South Carolina 1976, as amended, which is enforced by the South Carolina Department of Revenue as a franchise tax. The opinion of Bond Counsel is limited to the laws of the State of South Carolina and federal tax laws. No opinion is rendered by Bond Counsel concerning the taxation of the Series 2020 Bonds or the interest thereon under the laws of any other jurisdiction.

UNDERWRITING

The Series 2020 Bonds are being purchased by Stephens Inc. and Robert W. Baird & Co. Incorporated (the “Underwriters”). The Underwriters have agreed to purchase the Series 2020 Bonds at an aggregate purchase price of \$46,012,930.82 (which amount equals the par amount of the Series 2020 Bonds less Underwriters’ discount of \$187,069.18). The initial public offering prices set forth on the cover of this Official Statement may be changed by the Underwriters, and the Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices.

LEGAL MATTERS

Litigation

No litigation is presently pending or, to the knowledge of the Issuer, threatened in any court to restrain or enjoin the issuance or delivery of any of the Series 2020 Bonds or the collection of revenues pledged or to be pledged to pay the principal of and interest on the Series 2020 Bonds, or in any way contesting or affecting the validity of the Series 2020 Bonds, the Resolution, or the power to collect and pledge revenues to pay the Series 2020 Bonds, or contesting the power or authority of the Issuer to issue the Series 2020 Bonds or to adopt the Resolution.

Opinions of Counsel

Certain legal matters related to the authorization, execution, sale and delivery of the Series 2020 Bonds are subject to the approving opinion of Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina, Bond Counsel to the District. The proposed form of Bond Counsel’s opinion is included as Appendix D. Certain legal matters will be passed on for the District by its counsel, Haynsworth Sinkler Boyd, P.A., Greenville, South Carolina, and for the Underwriters by their counsel, Parker Poe Adams & Bernstein LLP, Columbia, South Carolina.

RATINGS

S&P Global Ratings and Moody’s Investors Service, Inc. (collectively, the “Rating Agencies”) have assigned long-term ratings of “AA” and “Aa3”, respectively, to the Series 2020 Bonds. Such ratings reflect only the views of the Rating Agencies and an explanation of the significance of such ratings may be obtained from the Rating Agencies. The Issuer has furnished the Rating Agencies with certain information and materials respecting the Issuer and the Series 2020 Bonds. Generally, the Rating Agencies base their ratings on such information and materials and on investigations, studies and assumptions furnished to and obtained and made by them. There is no assurance that such ratings will remain unchanged for any period of time or that they may not be lowered or withdrawn entirely by the Rating Agencies, if in their judgment circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2020 Bonds.

FINANCIAL ADVISOR

First Tryon Advisors has served as financial advisor (the “Financial Advisor”) to the District with respect to the sale of the Series 2020 Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Series 2020 Bonds is contingent on the issuance and delivery of the Series 2020 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement and the appendixes thereto.

VERIFICATION

The accuracy of the arithmetical computations of the adequacy of the maturing principal amounts of principal and interest on the federal securities placed in escrow to pay, when due, the principal of and the interest on the Refunded Series 2013B Bonds will be verified by Bingham Arbitrage Rebate Services, Inc. Such verification of arithmetical accuracy and mathematical computations will be based upon information supplied by the District and the Underwriters.

CONTINUING DISCLOSURE

In accordance with Section 11-1-85 of the Code of Laws of South Carolina, 1976, as amended, the District has covenanted in the 2020 Series Resolution to file with a central repository for availability in the secondary bond market when requested (1) an annual independent audit, within thirty days of the District’s receipt of its audit, and (2) event specific information, within thirty days of an event adversely affecting more than five percent of the District’s revenues. The only remedy for failure by the District to comply with this covenant shall be an action for specific performance. Moreover, the District has specifically reserved the right to amend or repeal this covenant to reflect any change in or repeal of Section 11-1-85 without the consent of any bondholder.

Further, as required by SEC Rule 15c2-12 (“Rule”), the District has covenanted for the benefit of the holders and beneficial owners of the Series 2020 Bonds to provide notices of the occurrence of certain enumerated events, and, in addition, to file annually by the last day of the seventh month following the end of each of the District’s fiscal years, commencing with the fiscal year ending June 30, 2020, “annual financial information” (as such term is defined in the Rule) (each, an “Annual Report”) which includes the District’s audited financial statements and certain other financial information and operating data included in this Official Statement, which the District specifically agrees will be provided in the District’s Annual Reports.

The District has undertaken and implemented formal Disclosure Policies and Procedures, including the engagement in September 2014 of Digital Assurance Corporation, L.L.C. (“DAC”). The District will enter into a Disclosure Dissemination Agent Agreement (“Disclosure Dissemination Agreement”) for the benefit of the holders of the Series 2020 Bonds with DAC, under which the District will designate DAC as Disclosure Dissemination Agent. The form of Disclosure Dissemination Agreement is attached hereto as Appendix E.

The District may modify from time to time, consistent with the Rule, the information provided to the extent necessary or appropriate in the judgment of the District, but: (1) any such modification may only be made in connection with a change in circumstances that arise from a change in legal requirements, change in law or change in the identity, nature or status of the District; (2) the information to be provided, as modified, would have complied with the requirements of the Rule as of the date of this Official Statement, after taking into account any amendments or interpretations of the Rule, as well as any changes in circumstances; and (3) any such modification does not materially impair the interest of the Holders or the beneficial owners, as determined by the Trustee or nationally recognized bond counsel or by the approving vote of the Holders of a majority in principal amount of the Series 2020 Bonds then Outstanding at the time of the amendment. Any annual financial information containing modified operating data or financial information will explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided. The District’s Rule 15c2-12 undertakings will terminate on payment, or provision having been made for payment in a manner consistent with the Rule, in full of the principal of and interest on the Series 2020 Bonds.

MISCELLANEOUS

All of the summaries of the provisions of the Enabling Act, the Series 2020 Bonds, the Resolution and all summaries and references to other documents, instruments and materials not purported to be quoted in full are only brief outlines of certain provisions thereof and are not intended to be and do not constitute complete statements of the Enabling Act, the Resolution or other such documents or provisions. Reference is made hereby to the complete documents relating to such matters for the complete terms and provisions thereof, or for the information contained therein, copies of which may be obtained from G. Newton Pressley, Chief Financial Officer of the District, (864) 580-5620, 200 Commerce Street, Spartanburg, South Carolina 29304. The attached Appendices are integral parts of this Official Statement and should be read in their entirety together with all foregoing statements.

Certain of the information set forth in this Official Statement and in the Appendices hereto has been obtained from sources other than the District that are believed to be reliable but is not guaranteed as to accuracy or completeness by the Underwriters or the District.

The execution of this Official Statement and its delivery have been duly authorized by the District.

This Official Statement is not to be construed as a contract with the holders of the Series 2020 Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not expressly so identified, are intended merely as such and not as representations of fact.

SPARTANBURG SANITARY SEWER DISTRICT,
SOUTH CAROLINA

By: /s/ Sue G. Schneider
Chief Executive Officer

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APPENDIX A

ECONOMIC AND DEMOGRAPHIC DATA FOR SPARTANBURG COUNTY

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ECONOMIC AND DEMOGRAPHIC DATA FOR SPARTANBURG COUNTY

Spartanburg County, South Carolina (the “County”) is located in the northwestern Piedmont section of the State of South Carolina (the “State”), approximately 175 miles northeast of Atlanta, Georgia, and 75 miles southwest of Charlotte, North Carolina. The County comprises the Spartanburg, SC MSA. The County includes the City of Spartanburg, which is the county seat and the eighth largest city in the State.

Manufacturing is the major employment sector in the County. The County is heavily industrialized with a number of large textile mills, a large plumbing fixtures plant, textile finishing plants, a large textile machinery plant, a textile chemical plant, an automotive plant, and numerous other manufacturing plants.

Employment Information

The annual unemployment rates for the County and the State for the calendar years 2014 through 2019 were as follows:

<u>Year</u>	<u>Spartanburg County</u>	<u>South Carolina</u>
2014	6.3%	6.4%
2015	5.7	6.0
2016	4.6	4.8
2017	4.0	4.3
2018	3.1	3.4
2019	2.2	2.8

Source: U.S. Department of Labor, Bureau of Labor Statistics

The unemployment rates (not seasonally adjusted) in the County for the most recent 12 months are shown below:

<u>Date</u>	<u>Spartanburg County</u>
March 2020	2.7%
February 2020	2.8
January 2020	2.7
December 2019	2.1
November 2019	1.9
October 2019	1.9
September 2019	1.6
August 2019	2.5
July 2019	2.8
June 2019	3.1
May 2019	2.9
April 2019	2.6

Source: South Carolina Department of Employment & Workforce -Labor Market Information Division

Some of the major employers in the County as of June 30, 2019 are as follows:

<u>Employers</u>	<u>Industry</u>	<u>Average Number of Employees</u>
BMW Manufacturing Corporation	Automobiles	11,000
Spartanburg County Schools	Public School System	7,710
Spartanburg Regional Medical Center	Health Services	7,500
Milliken & Company	R&D on yarns and chemicals	4,007
Michelin Tire Company	Radial truck tires	3,435
Adidas	Apparel Distributor	2,520
State of South Carolina	State Government	2,083
Spartanburg County	Government	1,682
Draexlmaier Automotive of America LLC	Automotive Supplier	1,075
AFL Corporation	Fiber Optic Cable	858
Benore Logistics Systems	Transportation Services	800
Lear Corporation	Automotive Seating	800
SEW- Eurodrive, Inc	Drive Technology	750
Inman Mills	Manmade woven fabric	700
Spartanburg Steel	Fabricate structural metal products	618

Source: 2019 Comprehensive Annual Financial Report

Population Figures

The following table shows population information for the County for the last four decades for which census figures are available, as well as a population estimate for 2018:

<u>Year</u>	<u>Population</u>	<u>Percent Increase Prior Census</u>
1980	201,861	16.2%
1990	226,793	12.4
2000	253,791	11.9
2010	284,307	12.0
2018*	313,888	10.4

*Estimated

Source: U. S. Census Bureau

Per Capita Income

The per capita personal income for each of the last five years for which information is available is shown below:

<u>Year</u>	<u>County</u>	<u>South Carolina</u>
2014	\$38,173	\$37,622
2015	39,772	39,496
2016	40,785	40,404
2017	41,783	42,081
2018	43,148	43,702

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Retail Sales

The following table shows retail sales for businesses located in the County for the five years shown:

<u>Year</u>	<u>Total Retail Sales</u>
2015	\$10,118,783,829
2016	10,355,126,909
2017	10,487,903,498
2018	11,559,427,445
2019	13,954,242,730

Source: South Carolina Department of Revenue

Capital Investment

The following table sets forth the total capital investment for new and expanded industry in the County over the past five calendar years.

<u>Year</u>	<u>Announced Jobs</u>	<u>Announced Investment</u>
2014	2,114	\$2,327,950,000
2015	1,999	479,467,360
2016	1,300	555,300,000
2017	1,789	885,310,000
2018	2,094	779,539,000

Source: Spartanburg Economic Futures Group

Construction Activity

The following table shows the number of residential and non-residential building permits issued by the County for the calendar years shown.

<u>Year</u>	<u>RESIDENTIAL</u>		<u>COMMERCIAL</u>	
	<u># of Permits</u>	<u>Cost</u>	<u># of Permits</u>	<u>Cost</u>
2014	1,040	\$179,673,160	274	\$117,939,699
2015	1,334	226,205,210	384	489,242,927
2016	1,741	295,991,116	371	231,838,570
2017	2,091	357,782,843	386	519,314,365
2018	2,442	397,807,362	384	455,284,920

Source: Spartanburg County Building Officials

Facilities Serving the County

Public Schools. The County is home to seven public school districts comprised of more than 44,000 students. The combined school districts consist of 44 elementary schools, 18 middle schools, five junior high school, nine high schools and four career centers or vocational schools. Approximately 17 fully accredited private and parochial schools also are located in the County. The school districts are independent political entities and receive no funding from County government.

The South Carolina School for the Deaf and the Blind offers programs for preschool, elementary, middle and high schools, sensory multidisabled vocational and postsecondary education students in addition to a vast array of outreach services. The Charles Lea Center, a comprehensive facility for evaluation, training, education and

rehabilitation of exceptional children, also assists the area schools through therapeutic programs for learning or emotional disorders.

Higher Education. The University of South Carolina—Upstate had a Fall 2019 enrollment of more than 6,000 students, and is one of the largest campuses of the University of South Carolina System. The four-year institution offers undergraduate degree programs in 11 fields of study in business administration and economics, education, humanities and sciences and nursing. Several graduate programs are also offered. Wofford College, a four-year liberal arts college with a Fall 2019 enrollment of approximately 1,672 students, and Converse College, a four-year liberal arts college for women with a Fall 2019 enrollment of approximately 918 undergraduate and graduate students, are also located in the County. Spartanburg Community College, a public two-year college offering associate degrees and certificates in a variety of fields, had a Fall 2019 enrollment of over 5,000 credit-seeking students. Sherman College of Straight Chiropractic had a Fall 2019 enrollment of approximately 97 students. Spartanburg Methodist College, a fully-accredited private junior college, had a Fall 2019 enrollment of approximately 837 students and offers associate degrees in liberal arts and science and several career tracks. The Edward Via College of Osteopathic Medicine (“VCOM”) is a private, nonprofit osteopathic medical school. VCOM established its Spartanburg campus in 2010 and had a Fall 2019 enrollment of approximately 1,900 students.

Medical Facilities. The County is served by numerous state-of-the-art healthcare facilities. The Spartanburg Regional Health Services District, Inc. (“Spartanburg Regional”) operates an integrated health care system offering a complete array of medical services and is the major healthcare provider in the three-county area of Spartanburg, Union and Cherokee Counties, South Carolina, and is presently undergoing a large capital expansion. Spartanburg Regional owns and operates four hospitals: Spartanburg Medical Center and Spartanburg Hospital for Restorative Care, each located in Spartanburg; South Carolina, Pelham Medical Center, located in Greer, South Carolina; and Union Medical Center in Union, South Carolina. Spartanburg Regional also operates three skilled nursing facilities: Spartanburg Hospital for Restorative Care Skilled Nursing Facility in Spartanburg, South Carolina, the Ellen Sagar Nursing Center in Union County, South Carolina and Woodruff Manor in Woodruff, South Carolina. Spartanburg Regional’s hospital facilities have undergone progressive change and expansion, growing to the present size of 575 licensed beds at Spartanburg Medical Center (with 464 beds operating), 97 long-term acute beds at Spartanburg Hospital for Restorative Care (with 66 beds operating), 48 licensed and operating beds at Pelham Medical Center, and 143 licensed beds at Union Medical Center (with 50 beds operating). The Spartanburg Regional’s system also includes the Medical Group of the Carolinas, a network of more than 300 physicians’ practices.

On December 31, 2018, Spartanburg Regional acquired Mary Black Health System, consisting of Mary Black Health System – Spartanburg, Mary Black Health System – Gaffney, Mary Black Physicians Group, and Mary Black Health Network. The acquired organization added 332 licensed beds to the capacity of Spartanburg Regional. Following the acquisition, Spartanburg Regional employs 400 physicians, encompasses 100 doctor offices, employs almost 9,000 people, and manages six hospitals in Spartanburg, Cherokee and Union counties.

Ernest Health, Inc. constructed a 40-bed rehabilitation hospital, the Spartanburg Rehabilitation Institute (“SRI”), which is the only freestanding acute rehabilitation hospital in the County. SRI provides comprehensive physical medicine and rehabilitation services to patients with functional deficits resulting from injury or illness. Inpatient services include acute rehabilitation, nursing care and medical management for patients suffering from stroke, spinal cord injury, brain injury, and amputation to name a few.

Also within the County is the Carolina Center for Behavioral Health, a 138-bed private behavioral health system which specializes in psychiatric and chemical dependency treatment and provides inpatient, partial hospitalization and intensive outpatient programs.

Air. The Greenville-Spartanburg International Airport (“GSP”), which is located approximately 20 miles from the City of Spartanburg, serves more than two million passengers per year by six major airlines offering an average of 50 nonstop daily departures to 20 designations across the United States. The GSP terminal building has more than 322,446 square feet and 13 departure gates. At 11,001 feet long, GSP can accommodate any aircraft currently in operation today. A 120,000 square-foot Federal Express facility and rental car service facilities are adjacent to GSP. GSP completed a major terminal expansion with a project budget of \$128 million in the second quarter of 2017. The so-called Wingspan Project consisted of moving the rental car customer care center, extensive concourse renovations, installing new baggage carousels and equipment, and consolidating security areas. On

November 19, 2018, the GSP commission announced plans for a \$456.1 million master plan to be implemented over the next 20 years. The plan provides for runway rehabilitation, additional structured parking, additions to air cargo facilities, and other improvements.

In addition, the County has access to general aviation services through the Spartanburg Downtown Memorial Airport which hosts business executives, government officials and tourists traveling by private aircraft and charter services. The Spartanburg Downtown Airport recently completed a significant \$25 million capital project related to the rebuilding and extending of its runway and upgrading airport navigational and lighting systems. The Spartanburg Downtown Memorial Airport has nearly 80,000 operations annually and serves more than 100 local aircraft with a 6,000 foot by 100-foot runway.

Mass Transit. Spartanburg Area Regional Transit Agency (“SPARTA”) provides public transit in and around the City. The bus system has eight fixed routes which serve employment sites, education centers, medical facilities and retail areas. All SPARTA buses are handicapped accessible. Intercity bus service is provided by Greyhound Bus Lines. As the hub of a modern highway system and served by interstate highways I-85, I-26, and three U.S. highways, the County is easily accessible to major metropolitan areas by car, truck and bus.

Railway and Trucking. CSX Transportation Company and Norfolk-Southern Corporation offer rail service within the County. Piggyback service is available through Norfolk-Southern Corporation. Trucking facilities in the County include 25 major common carrier terminals and over 50 freight lines.

Inland Port. The South Carolina Inland Port Greer (the “SCIP”), owned and operated by the South Carolina Ports Authority, opened in October 2013 as a 91-acre intermodal facility located near GSP in the County. Rail service between Charleston, South Carolina and Inland Port Greer runs six days per week allowing for the flow of cargo between the Port of Charleston and many manufacturing and distribution facilities located in Spartanburg, Greenville, and other counties in the upstate of South Carolina. The SCIP boosts efficiency for international freight movements between the Port of Charleston and companies located across the Southeast. In Fiscal Year 2019, SCIP had 143,204 rail moves. Norfolk Southern serves SCIP through its main rail line, and the facility is positioned along the Interstate 85 corridor between Charlotte and Atlanta, where Norfolk Southern operates additional rail yards.

Utilities. Electric power is provided by Duke Energy, which serves most of the County. Broad River Electric Cooperative, Laurens Electric Cooperative, Lockhart Power Company and the Greer Commission of Public Works also serve consumers in the County. Natural gas is supplied and distributed by Piedmont Natural Gas Company and the Greer Commission of Public Works. The Spartanburg Water System supplies water to approximately 80% of the County’s population. Other waterworks service is provided by Woodruff-Roebuck Water District, Startex-Jackson-Wellford-Duncan Water District, Inman-Campobello Water District and the Greer Commission of Public Works. Several not-for-profit water companies also provide water service in the County. The Spartanburg Sanitary Sewer District owns and operates several sewage treatment facilities which serve the County. The Greer Commission of Public Works and the Town of Lyman also provide sewage treatment facilities.

Recreation. The County oversees 26 County parks along with numerous organized team sports. One of these parks is the Tyger River Park which is a 137-acre youth baseball and softball regional sports complex which includes 12 lighted fields, a lighted championship stadium, meeting space, concession stands, multiple restrooms, a playground and an observation tower.

Tourists and residents also are drawn to the Zentrums, a visitor’s center operated by BMW Manufacturing Corp. The Zentrums houses a museum, an auditorium and other special attractions and draws approximately 60,000 visitors annually. Located in the County are Cowpens National Battlefield, which is the site of a major battle of the Revolutionary War, and Walnut Grove Plantation, which is a restored estate with authentic furnishings and a number of restored outbuildings. Also located in the County is the Upward Star Center, which is a private, nonprofit sports complex owned and operated by Upward Sports. It features six full-sized basketball courts, twelve regulation indoor volleyball courts, four batting cages, a running track, a strength and conditioning area with trainers, weights and cardio machines, a speed and agility area, team rooms, players’ lounge, meeting rooms, a café, a retail shop, four lighted sand volleyball courts, two lighted artificial turf and four grass fields.

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APPENDIX B

BOND RESOLUTION TOGETHER WITH AMENDMENTS

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A RESOLUTION

**PROVIDING FOR THE ISSUANCE AND SALE OF SEWER SYSTEM
REVENUE BONDS AND SEWER SYSTEM CONVERTIBLE BONDS OF
SPARTANBURG SANITARY SEWER DISTRICT, STATE OF SOUTH
CAROLINA, AND OTHER MATTERS RELATING THERETO.**

(BOND RESOLUTION)

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**BE IT RESOLVED BY THE SPARTANBURG SANITARY SEWER DISTRICT
COMMISSION OF SPARTANBURG SANITARY SEWER DISTRICT, STATE OF
SOUTH CAROLINA, IN MEETING DULY ASSEMBLED:**

**ARTICLE I
FINDINGS OF FACT**

Section 1.01 Recitals and Statement of Purpose.

Incident to the adoption of this Resolution, and the issuance of the bonds provided for herein, the Spartanburg Sanitary Sewer District Commission of Spartanburg Sanitary Sewer District, State of South Carolina (the "Commission"), the governing body of the Spartanburg Sanitary Sewer District, State of South Carolina (the "District") finds, as a fact, that each of the statements hereinafter set forth is in all respects true and correct.

(A) The District. The District is a special purpose district located in Spartanburg County, South Carolina, and includes the City of Spartanburg and surrounding areas. The District was first established as the Spartanburg Metropolitan District by Act No. 556 of the Acts of the General Assembly of South Carolina for the year 1929, and was created for the purpose of providing a system, or systems, for sewage disposal for the areas located within the District in order to protect the health of the residents residing therein. The District has continuously performed that function since its establishment, through the operation of its sewer system (the "System").

(B) Enabling Legislation. At its 1970 Session, the General Assembly of the State of South Carolina adopted Act No. 1503 entitled "AN ACT TO CHANGE THE NAME OF THE SPARTANBURG METROPOLITAN DISTRICT IN SPARTANBURG COUNTY TO SPARTANBURG SANITARY SEWER DISTRICT; TO REDEFINE THE BOUNDARIES OF THE DISTRICT; TO INCREASE THE NUMBER OF MEMBERS OF THE GOVERNING COMMISSION; TO REDEFINE THE FUNCTIONS AND PURPOSES OF THE DISTRICT AND THE POWERS AND DUTIES OF ITS COMMISSION; TO PERMIT THE CITY OF SPARTANBURG (SUBDISTRICT A) AND SUBDISTRICT B OF THE DISTRICT AND UNA WATER DISTRICT TO CONVEY THEIR SEWERAGE COLLECTION SYSTEMS, TOGETHER WITH ALL ASSETS AND LIABILITIES IN CONNECTION WITH SUCH SYSTEMS, TO THE DISTRICT; AND TO REPEAL ALL PRIOR LEGISLATION AND AMENDMENTS THERETO RELATING TO THE SPARTANBURG METROPOLITAN DISTRICT, EXCEPT INsofar AS IT MAY RELATE TO THE BONDHOLDERS OF SUCH DISTRICT AND TO THE ESTABLISHMENT AND AUTHORITY OF SUBDISTRICT B TO OWN AND OPERATE A WATER SYSTEM AND OF SUBDISTRICTS A AND B TO OWN AND OPERATE A SEWAGE COLLECTION SYSTEM," approved May 1, 1970, which act, among other things, changed the name of the District from the Spartanburg Metropolitan District to the Spartanburg Sanitary Sewer District, and established the Commission as the governing body of the District. Act No. 1503 of 1970 was amended by Act No. 847 of the Acts of the General Assembly of South Carolina for the year 1971, and Act No. 1962 of the Acts of the General Assembly of South Carolina for the year 1972.

Act No. 1503, as so amended ("Act No. 1503"), provides that a purpose of the District shall be to design, install, construct and reconstruct sewerage collection systems, sewerage transmission systems and sewerage treatment facilities; and empowers the Commission to issue bonds of the District payable from and secured by revenues of the System for District purposes.

(C) Outstanding Revenue Bonds. The District currently has outstanding two issues of revenue bonds. One issue is in the form of a loan from the South Carolina Water Pollution Control Revolving Fund and is styled as the South Carolina Water Pollution Revolving Fund Loan Number 033-95-371-61 (North Tyger River Interceptor Project) (the "North Tyger River Interceptor Loan").

The other revenue issue of the District is the original principal amount \$19,640,000 Sewer System Improvement Revenue Bonds, Series 1997, the first principal maturity of which occurs on June 1, 2001 (the "1997 Revenue Bonds"). Both of these issues are governed by the provisions of a resolution adopted by the Commission on February 25, 1997 and entitled, "A Resolution Providing for the Issuance and Sale of Sewer System Revenue Bonds of Spartanburg Sanitary Sewer District, State of South Carolina, and other Matters Relating Thereto" (the "1997 Bond Resolution").

(D) 1999 Capital Improvements. At the present time, the Commission has determined that additional moneys in the approximate amount of \$20,240,000 must be raised in order to pay for the costs of certain improvements to the System. In order to raise this sum by the issuance of revenue bonds, under the provisions of the 1997 Bond Resolution and on a parity with the two revenue issues described above, the Commission must increase its sewer rates and charges on or prior to the issuance of such additional debt. The Commission has elected not to raise sewer rates and charges at this time. Undertaking an advance refunding of the 1997 Revenue Bonds would allow the District to substitute less restrictive covenants than those presently provided in the 1997 Bond Resolution and would permit the Commission to borrow the required sum at reasonable rates.

Due to the fact that the North Tyger River Interceptor Loan is likewise governed by the 1997 Bond Resolution, acquiescence to the terms of a new bond resolution by the holder thereof must be obtained.

(E) Outstanding General Obligation Debt. The District also has currently outstanding two issues of general obligation bonds, dated April 1, 1979 and April 1, 1993. The original amounts of those issues are \$2,520,000 for the issue dated April 1, 1979 of which \$450,000 is outstanding (the "1979 General Obligation Bonds") and \$11,875,000 for the issue dated April 1, 1993 of which \$9,855,000 is outstanding (the "1993 General Obligation Bonds"). The 1979 General Obligation Bonds mature as follows:

<u>Due</u> <u>January 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2000	\$150,000	5.5%
2001	150,000	5.5
2002	150,000	5.5

The 1993 General Obligation Bonds mature as follows:

<u>Due</u> <u>March 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Due</u> <u>March 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2000	\$475,000	5.0%	2007	\$670,000	5.2%
2001	500,000	5.0	2008	705,000	5.3
2002	525,000	5.0	2009	745,000	5.3
2003	550,000	5.0	2010	785,000	5.4
2004	580,000	5.0	2011	825,000	5.4
2005	610,000	5.0	2012	870,000	5.4
2006	640,000	5.1	2013	920,000	5.4

In addition to the 1979 General Obligation Bonds and the 1993 General Obligation Bonds, the District has two loans from the South Carolina Water Pollution Control Revolving Fund that are secured by the full faith, credit, and taxing power of the District, which are as follows:

(i) South Carolina Water Pollution Control Revolving Fund Loan Number 005-89-371-55 (Lawson Fork Wastewater Treatment Plant By-Pass Elimination Project) (the "Lawson Fork Loan"), and

(ii) South Carolina Water Pollution Control Revolving Fund Loan Number 004-89-371-62 (Fairforest Wastewater Treatment Plant By-Pass Elimination Project) (the "Fairforest Loan").

Payments on the four (4) issues of general obligation debt are made from a combination of *ad valorem* property taxes especially levied therefor and revenues of the System. The general obligation debt is not additionally secured by a pledge of the revenues of the System.

Act No. 1503 permits a District-wide levy of *ad valorem* property taxes to pay debt service on general obligation bonds of the District issued to pay the costs of construction of either sewage treatment facilities or interceptor or trunk lines. At least 97% of the costs of the improvements to the System financed by the 1997 Revenue Bonds qualify for a District-wide *ad valorem* tax levy. Approximately \$9,740,000 of the expected costs of the 1999 Improvements will qualify for such financing. Article X, Section 14, paragraph (7) of the South Carolina Constitution permits the District to issue general obligation bonds without approval of a majority of the qualified electors of the District in an amount not exceeding eight percent of the assessed value of all taxable property of the District. The District may not now lawfully issue general obligation debt currently in an amount sufficient to finance the entire 1999 Improvements.

(F) Ad Valorem Tax Levy. For fiscal year 1998-99 there has been levied millage in the amount of 5.2 mills, the proceeds of which pay a portion of the debt service on the District's outstanding general obligation debt and certain administrative costs of the District. Due to the maturity schedules of the general obligation debt, there will occur a point within the next five (5) fiscal years when that level of millage will no longer be required unless additional general obligation debt is issued.

(G) Proportion of Revenue Bonds and General Obligation Bonds. The District may finance its governmental purposes through a combination of revenue bonds and general

obligation bonds. The Commission has reviewed the current mix of such types of obligations and has concluded that the present ad valorem tax levy to support its outstanding general obligation bonds represents a fair and equitable contribution to the purposes of the District. The Commission concludes that it is in the best interest of the District to allow the Commission to issue revenue bonds which the Commission may elect, by future resolution, to convert to general obligation bonds from time to time in the discretion of the Commission, as a means of permitting the District to maintain an equitable mix of ad valorem and revenue bond debt.

(H) Convertible Revenue Bonds. In order to achieve the purposes stated hereinabove, the Commission has determined to adopt this resolution to provide for the issuance of fixed or variable rate bonds, on either a current interest-bearing or capital appreciation basis, from time to time by the District payable from the revenues of the System to (i) finance enlargements and improvements to the System (including the costs of issuance and such expenditures for the projects to be financed as have already been or will be made prior to issuance), (ii) provide a mechanism through which revenue obligations of the District may from time to time be converted to general obligation debt, (iii) provide modifications to the provisions which govern the issuance of additional debt payable from the revenues of the System, and (iv) refund from time to time such bonds.

[End of Article I]

ARTICLE II DEFINITIONS, CONSTRUCTION AND INTERPRETATIONS

Section 2.01 Definition of Resolution.

This Resolution may be hereafter cited and is hereinafter sometimes referred to as the Bond Resolution; such term shall include all resolutions supplemental to, or amendatory of, this Resolution.

Section 2.02 Defined Terms.

In this Bond Resolution, terms defined in Article I shall have the meaning assigned therein, and unless a different meaning clearly appears from the context, the following terms shall have the following respective meanings:

“Accountant” shall mean an independent firm of certified public accountants of suitable standing who audit the books, records, and accounts of the District.

“Accreted Value” shall mean the amounts set forth or determined in the manner set forth in a Series Resolution, authorizing the issuance of Bonds in the form of Capital Appreciation Bonds.

“Annual Budget” shall mean the annual budget or amended budget of the District in effect as provided in or adopted pursuant to the provisions of this Bond Resolution.

“Annual Principal and Interest Requirement” shall mean, with respect to any particular Fiscal Year and to a Series of Bonds Outstanding, an amount (other than amounts, including capitalized interest, paid from proceeds of Bonds) equal to the sum of (1) all interest payable on such Series of Bonds during such Fiscal Year plus (2) any Principal Installments of such Series of Bonds during such Fiscal Year. For purposes of computing “Annual Principal and Interest Requirement,” the rate of interest used to determine (1) above shall be a rate per annum equal to (a) with respect to any Series of Bonds which bear interest at a fixed rate, including a synthetic fixed rate under a swap agreement, the rate of interest borne or to be borne by such Bonds, and (b) with respect to any Series of Variable Rate Bonds, the interest rate shall be assumed to be the highest of:

(i) the actual rate on the date of calculation, or if the Variable Rate Bonds are not yet Outstanding, the initial rate (if established and binding);

(ii) if the Variable Rate Bonds have been Outstanding for at least twelve (12) months, the average rate over the twelve months immediately preceding the date of calculation;

(iii) (1) if interest on the Variable Rate Bonds is intended by the District to be excludable from gross income under the applicable provisions of the Code, the *Bond Buyer* 25 Revenue Bond Index (or comparable index if such is no longer published) published not earlier than two weeks prior to the sale date, or (2) if interest is not intended to be so excludable, the interest rate on Government Obligations with comparable maturities; provided, however, that for purposes of any rate covenant measuring actual debt service coverage during a test period, Variable Rate Bonds shall be deemed to bear interest at the actual rate per annum applicable during the test period; and

(iv) interest paid and payable on Bonds with respect to which a Related Financial Transaction is in effect shall be determined by taking into account (in a manner that does not result in the duplication of payment requirements): (A) regularly scheduled payments due pursuant to such transaction so long as no failure to pay or event of default under such transaction has occurred and is continuing and (B) upon termination of such transaction (by reason of an event of default or otherwise), amounts actually paid with respect to the termination of such transaction.

"Authorized Investments" shall mean investments that are, at the time of investment, lawful for investment of the District's funds under Section 6-5-10, Code of Laws of South Carolina 1976, as amended from time to time, or any successor or other applicable provision of the Code of Laws of South Carolina 1976, as amended from time to time: provided, however, that the definition of "Authorized Investments" may be further specified in each Series Resolution.

"Bond Counsel" shall mean an attorney or firm of attorneys of recognized standing in the field of law relating to municipal, state and public agency financing, selected by the District and satisfactory to the Trustee.

"Bond Payment Date" shall mean the dates on which the principal of or interest on any of the Bonds shall be payable or on which both principal and interest shall be payable on any of the Bonds, all as set forth in the Series Resolutions authorizing the issuance of the respective Series of Bonds.

"Bondholder" or "Holder", or any similar term, when used with reference to a registered Bond or Bonds, shall mean any person who shall be the registered owner of any Outstanding Bond, in the case of Bonds issued in bearer form, the holder of any such Bond, and in the case of Bonds consisting of contractual obligations not in the form of an instrument, the party entitled to enforce the District's payment obligation thereunder.

"Bonds" shall mean the North Tyger River Interceptor Loan, as defined in Section 1.01 hereof, and any other indebtedness or obligations, including any obligations entered into under the provisions of long-term contracts payable from the revenues of the System, issued in accordance with the provisions of the Enabling Act, this Bond Resolution and a Series Resolution, excluding indebtedness (1) incurred in accordance with Article VII hereof or (2) converted to general obligation debt in accordance with the provisions of Section 4.19 hereof.

"Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions, in the State or in the State of New York or in the state in which the Paying Agent's principal corporate trust office is located, are required or authorized by law (including executive orders) to close.

"Capital Appreciation Bonds" shall mean Bonds that bear interest payable only at maturity or payable prior to maturity only on the redemption dates set forth in, and in the amounts determined by reference to the Accreted Value established in accordance with the provisions of, the Series Resolution authorizing the issuance of such Capital Appreciation Bonds.

"Chairman" shall mean the Chairman of the Commission. The term shall include the Vice-Chairman whenever, by reason of absence, illness or other reason, the person who is the Chairman is unable to act.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and applicable Treasury Regulations from time to time in effect.

"Combined Annual Principal and Interest Requirement" shall mean, with respect to any Fiscal Year, the sum of the Annual Principal and Interest Requirements for all Series of Bonds to be Outstanding during that Fiscal Year.

"Commission" shall mean the Spartanburg Sanitary Sewer District Commission, or any successor body.

"Date of Issue" shall mean that date established in any Series Resolution from which interest shall accrue on the Bonds of the applicable Series.

"Debt Service Fund" shall mean the fund or funds herein so designated and designed to provide for the payment of the principal of and interest on the respective Series of Bonds issued pursuant to this Bond Resolution, as the same respectively fall due, and as established by the provisions of Section 8.03 hereof.

"Debt Service Reserve Fund" shall mean the fund or funds so designated and designed (1) to secure the timely payment of the principal of and interest on the respective Series of Bonds Outstanding and issued pursuant to this Bond Resolution, and (2) to provide for the redemption of such Series of Outstanding Bonds prior to their stated maturity, as established by the provisions of Section 8.04 hereof; provided, however, that any Series Resolution may designate the Debt Service Reserve Fund for the Series of Bonds authorized thereby to be consolidated with the Debt Service Reserve Fund for each other Series so designated, in which case all such designated Series shall be considered in the aggregate as a single Series for all purposes related to the consolidated Debt Service Reserve Fund.

"Defeasance Obligations", unless otherwise provided in a Series Resolution for a particular Series of Bonds, shall mean non-callable (i) Government Obligations or (ii) evidences of ownership of a proportionate interest in specified Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian.

"Depreciation and Contingent Fund" shall mean the fund herein so designated and designed to provide for contingencies, for the replacement of depreciated or obsolete parts of the System and for improvements, betterments and extensions of the System, as established by the provisions of Section 8.06 hereof.

"District" shall mean the Spartanburg Sanitary Sewer District, State of South Carolina.

"District Representative" shall mean the individual to whom the District has delegated the responsibility of supervising and maintaining records and accounts relating to the collection and disbursement of the revenues derived by the District from the operation and maintenance of the System.

"Enabling Act" shall mean Chapter 17 of Title 6 and Chapter 21 of Title 11, Code of Laws of South Carolina 1976, as amended from time to time, Act No. 1503 of the Acts and Joint Resolutions of the General Assembly for the year 1970, as amended, and all other statutory authorizations, authorizing and enabling the District to adopt this Bond Resolution.

"Events of Default" shall mean those events set forth in Section 14.01 of this Bond Resolution.

"Feasibility Consultants" shall mean any independent firm of consultants, engineers or accountants employed by the District having skill and experience in utility financing and rate design, and the design and operation of water and sewer facilities.

"Fiduciary" or "Fiduciaries" shall mean the Trustee and any Registrar or any Paying Agent and any other agent of the District appointed pursuant to the authorizations of this Bond Resolution or any Series Resolution or any or all of them, as may be appropriate.

"Financial Transaction" means any interest rate swap transaction, basis swap, cap transaction, floor transaction, hedge, collar transaction; any other "Transaction" as defined in the 1992 U.S. Municipal Counterparty Definitions published by the International Swap Dealers Association, Inc. or any amendments to or subsequent editions of such Definitions or any similar transaction (regardless of how defined) permitted under any such amendments to or more recent editions of such definitions or of any similar publications of such association or any similar organization; any transactions similar to any of the foregoing; or any combination of any of the transactions described in this definition.

"Fiscal Year" shall mean the period of twelve (12) calendar months, beginning on July 1 of each year, and ending on June 30 of the next year, unless the same shall have been changed by the District pursuant to the authorization contained in Section 3.01 hereof.

"General Obligation Bonds" shall mean general obligation bonds of the District, as defined in South Carolina Constitution Article X, Section 14, as such bonds may be outstanding from time to time, specifically including (1) the General Obligation Bonds as so defined in Section 1.01 hereof and (2) those issued originally as Bonds and converted to General Obligation Bonds pursuant to the provisions of Section 4.19 hereof.

"General Revenue Fund" shall mean the account or accounts which shall be established and maintained by the District in such fashion as to reflect adequately all of the receipts and revenues derived from the operation of the System and all interest and other income earned by the District in connection with the operation of the System, as established by the provisions of Section 8.02 hereof.

"Government Obligations" shall mean direct general obligations of the United States of America or its agencies, the payment of which is fully and unconditionally guaranteed by the United States of America.

"Gross Revenues" or "Gross Revenues of the System" shall mean for the period in question:

- (a) all receipts and revenues (except customers' deposits) derived from the operation of the System including service fees (tap-in fees, connection fees, front-foot assessments and availability fees),

- (b) all proceeds from the sale or other disposition of any property owned directly or beneficially by the District in connection with the operation of the System,

(c) all interest and other income received by the District, directly or indirectly, from the investment of any moneys or accounts relating to the System; excluding, however, investment income restricted to a purpose inconsistent with the payment of operating expenses or debt service, and specifically excluding (whether or not so restricted) interest earned on any construction fund or construction account created with the proceeds of borrowing by the District, and

(d) all other unencumbered money to which the District may become entitled from any source whatsoever, including, but not limited to, any Related Financial Transaction (provided, however, that a Related Financial Transaction and the revenues derived therefrom shall be part of the Gross Revenues only in respect of the Series of Bonds to which such Related Financial Transaction relates), but specifically excluding any amounts received by way of ad valorem property taxes, government grants or aids-to-construction.

"1999 Improvements" means the improvements currently planned to the facilities of the System, as will be more fully described in a Series Resolution relating to the Series of Bonds issued to finance such improvements.

"Insurer", with respect to any Series of Bonds, shall mean an insurance company that has written a Municipal Bond Insurance Policy covering such Series of Bonds.

"Junior Lien Bonds" shall mean any revenue bonds issued by the District or other obligations entered into by the District including such obligations under the provisions of long-term contracts which are secured by pledges of and liens on the revenues of the System which are junior and subordinate in all respects to the pledges and liens made to secure Bonds.

"Maturity Value" of any Bond which is a Capital Appreciation Bond means the amount payable to the Holder of such Bond on its maturity date.

"Moody's" shall mean Moody's Investors Service and its successors.

"Municipal Bond Insurance Policy" shall mean any municipal bond insurance policy insuring the payment, when due, of the principal of and interest on a Series of Bonds.

"Net Earnings" shall mean for the period in question the net income of the District, determined in accordance with generally accepted accounting principles. Whether or not generally accepted accounting principles so require, however, for purposes of the calculation made to determine Net Earnings, the following provisions shall apply.

(a) Net Earnings shall include:

(i) amounts received as service fees (including, without implied limitation, tap-in fees, availability fees, connection fees, and front-foot assessments);

(ii) amounts received by way of ad valorem property taxes not levied for debt service on General Obligation Bonds;

(iii) amounts transferred into the Operation and Maintenance Fund from a Rate Stabilization Fund, pursuant to Section 9.08 hereof; and

(iv) amounts receivable from any counterparty under a Related Financial Transaction (provided, however, that a Related Financial Transaction and the revenues derived therefrom shall be part of the Net Earnings only in respect of the Series of Bonds to which such Related Financial Transaction relates).

(b) Net Earnings shall not include:

(i) gains on the sale or other disposition of investments or fixed or capital assets, not resulting from the ordinary course of the District's business;

(ii) investment income restricted to a purpose inconsistent with the payment of operating expenses or debt service including (whether or not so restricted) interest earned on any construction fund or construction account (including a capitalized interest account) created with the proceeds of any borrowing of the District;

(iii) government grants and aids-to-construction; and

(iv) amounts transferred into the Rate Stabilization Fund pursuant to Section 9.08, to the extent that such transfers in do not exceed transfers out from that Fund to the Operation and Maintenance Fund pursuant to Section 9.08 in the then current Fiscal Year.

(c) The following shall not be subtracted as expenses in determining Net Earnings:

(i) losses on the sale or other disposition of investments or fixed or capital assets, not resulting from the ordinary course of the District's business;

(ii) the amortization of financing expenses, underwriting discounts, call premiums, gains or losses on the extinguishment of debt due to refinancing of the same, and other related and non-recurring expenses resulting from the issuance or refinancing of Bonds; and

(iii) principal and interest paid on the Bonds, amounts paid into any debt service reserve fund established for any Bonds, and depreciation expense for such period.

"North Tyger River Interceptor Loan" shall have the meaning given to such term in Section 1.01 hereof.

"Operation and Maintenance Expenses" shall mean for the period in question all expenses incurred in connection with the administration and the operation of the System, including, without limiting the generality of the foregoing, such expenses as may be reasonably necessary to preserve the System in good repair and working order, the fees and charges of the Trustee and the custodian or trustee of any fund, the costs of audits required hereunder, the costs of computation and payment of any arbitrage rebate, fees and expenses or payments under any Financial Transactions which are not Related Financial Transactions, and the premiums for all insurance and fidelity bonds required by this Bond Resolution. Operation and Maintenance Expenses shall not include:

- (a) depreciation allowances;
- (b) amounts paid as interest on bonds;
- (c) amounts expended for extraordinary repairs to the System;
- (d) the amortization of financing expenses, underwriting discounts, call premiums, gains or losses on the extinguishment of debt due to the refinancing of the same, and other related or incidental non-recurring expenses resulting from the issuance or refinancing of Bonds; and
- (e) amounts paid as capital costs pursuant to the provisions of long-term contracts which the District has entered into in order to provide sewer services to the areas included within its service area, such obligations being specifically included within the definitions of Bonds or Junior Lien Bonds depending upon the pledge given to secure the same.

"Operation and Maintenance Fund" shall mean the fund designed to provide for the payment of all Operation and Maintenance Expenses except those paid from taxes.

"Outstanding", when used with reference to any Bonds and subject to Section 18.01 hereof and except as may be modified for any Series of Bonds pursuant to the provisions of a Series Resolution, shall mean, as of any date, all such Bonds theretofore or then being authenticated and delivered except:

- (a) Bonds cancelled at or prior to such date;
- (b) Bonds in lieu of or in substitution for which other Bonds shall have been executed and delivered;
- (c) Bonds deemed to have been paid as provided in Article XVII hereof; and
- (d) for purposes of any consent or other action to be taken by the holders of a specified percentage of Bonds, Bonds held by, or for the account of the District, or by any person controlling, controlled by, or under common control with the District unless all Bonds are so held.

"Paying Agent" shall mean the Trustee or any bank, trust company, or national banking association which is designated by the District to make disbursements of principal, interest and redemption premium, if any, with regard to the Bonds to the Bondholders.

"Principal Installment" shall mean, as of any date of calculation, (i) the aggregate principal amount of Outstanding Bonds stated to mature on a certain date, reduced by the aggregate principal amount of such Bonds which will be retired by reason of any mandatory sinking fund payment payable before such date, plus (ii) any mandatory sinking fund payment due on such certain date, together with the aggregate amount of the premiums, if any, applicable to such mandatory sinking fund payments, plus (iii) with respect to any Capital Appreciation Bonds required to be paid on such certain date, the Maturity Value as of such certain date of such Capital Appreciation Bonds; and in this latter respect, any reference to "principal" of Bonds in this Bond Resolution shall mean, with respect to Capital Appreciation Bonds, the Maturity Value of such Capital Appreciation Bonds.

"Rate Stabilization Fund" shall mean the fund designed to provide for the stabilization of rates by carrying forward surplus revenues.

"Record Date" shall mean the fifteenth (15th) day of the month immediately preceding each Bond Payment Date (or such other time or times as shall be prescribed for any Series by the applicable Series Resolution).

"Registrar" shall mean the Trustee or any bank, trust company, or national banking association which is authorized by the District to maintain an accurate list of those who from time to time shall be the Holders of Bonds of a particular Series and to effect the transfer of such Bonds in accordance with the provisions of the Bond Resolution and having the duties, responsibilities, and rights provided for in this Bond Resolution and any Series Resolution, and its successor or successors and any other corporation or association which at any time may be substituted in its place pursuant to this Bond Resolution.

"Related Financial Transaction" means, with respect to any Series of Bonds, a Financial Transaction pursuant to which payments by the District to the transaction counterparty are to be paid from or secured by revenues or funds pledged to the payment of or as security for such Series of Bonds and payments by the transaction counterparty to the District are pledged to the payment of or as security for such Series of Bonds.

"Reserve Requirement" shall mean, as of any date of calculation, the debt service reserve requirement, if any, established by a Series Resolution authorizing a Series of Bonds.

"S&P" shall mean Standard & Poor's Ratings Group and its successors.

"Secretary" shall mean the Secretary of the Commission. The term shall include the Acting Secretary or the Assistant Secretary whenever, by reason of absence, illness or other reason, the person who is the Secretary is unable to act.

"Securities Depository" shall mean The Depository Trust Company, New York, New York, or other recognized securities depository selected by the District, which securities depository maintains a book-entry system in respect of the Bonds of any Series, and shall include any substitute for or successor to the securities depository initially acting as Securities Depository.

"Securities Depository Nominee" shall mean, as to any Securities Depository, such Securities Depository or the nominee of such Securities Depository in whose name there shall be registered on the registration books maintained by any Registrar, the Bond certificates to be delivered to and immobilized at such Securities Depository during the continuation with such Securities Depository of participation in its book-entry system.

"Serial Bonds" shall mean the Bonds of any Series which are stated to mature in installments and for which there are no mandatory sinking fund provisions.

"Series" shall mean all of the Bonds authenticated and delivered on original issuance in a simultaneous transaction and designated as a single Series by the authorizing Series Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as herein provided, regardless of variations in maturity, interest rate or other provisions.

"Series Resolution" shall mean a Resolution of the Commission authorizing the issuance of a Series of Bonds by the District pursuant to this Bond Resolution in accordance with the terms and provisions hereof, adopted by the Commission in accordance with Article IV hereof.

"Special Facilities" shall mean those facilities financed with the proceeds of Special Facilities Bonds as described in Section 7.02 hereof.

"Special Facilities Bonds" shall mean those obligations issued in accordance with Section 7.02 hereof.

"State" shall mean the State of South Carolina.

"System" shall mean the Sewer System of the District as the same is now or may be constituted, all property real and personal, used and useful therefor, all apparatus and equipment used in connection therewith, and all acquisitions, replacements, enlargements, improvements, extensions, additions and betterments that may be made thereto at any time hereafter; provided, that during such time as any Special Facilities Bonds issued to finance Special Facilities are outstanding, the term "System" shall not include such Special Facilities.

"Term Bonds" shall mean the Bonds of any Series which are stated to mature in a single year and which are subject to mandatory sinking fund redemption prior to the stated maturity date.

"Trustee" shall mean the financial institution serving as Trustee pursuant to this Bond Resolution and which shall have such other duties, privileges and functions as are set forth herein. Such term shall include any successor and any corporation or association resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at the time serving as successor trustee hereunder.

"Variable Rate Bonds" shall mean, for any period of time, any Bonds which during such period bear interest at a variable rate; provided that Bonds the interest rate on which has been fixed for the remainder of the term thereof shall no longer be Variable Rate Bonds.

Section 2.03 Interpretations.

In this Bond Resolution, unless the context otherwise requires:

(A) Articles, Sections and paragraphs referred to by number shall mean the corresponding Articles, Sections and paragraphs of this Bond Resolution.

(B) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations, or other legal entities, including public bodies, as well as natural persons.

(C) The terms "hereby", "hereof", "hereto", "herein", "hereunder", and any similar terms, as used in this Bond Resolution refer to the Bond Resolution or Sections or paragraphs of this Bond Resolution and the term "hereafter" shall mean any date after the date of adoption of this Bond Resolution.

(D) References to the payment of principal of Bonds shall be deemed to include payment of principal both at maturity and by mandatory redemption pursuant to any sinking fund payment obligations.

(E) Any Fiduciary shall be deemed to hold an Authorized Investment in which money is invested pursuant to the provisions of this Bond Resolution, even though such Authorized Investment is evidenced only by a book entry or similar record of investment.

[End of Article II]

ARTICLE III FISCAL YEAR

Section 3.01 Establishment and Modification of Fiscal Year.

The System shall continue to be operated on a Fiscal Year basis, which, until changed, shall commence on the first (1st) day of July of each year and shall end on the thirtieth (30th) day of June of the next year. The District, in its sole discretion, may from time to time, change the Fiscal Year from that now existing to a different twelve (12) month period.

[End of Article III]

ARTICLE IV THE BONDS

Section 4.01 Authorization for Bonds in Series.

(A) From time to time and for the purposes of:

(1) Obtaining funds for the expansion and improvement of the System, including the recoupment of funds already so expended;

(2) Providing funds for the payment of any bond anticipation note or notes issued in order to defray the cost of expansions and improvements to the System and that were issued in anticipation of the issuance and sale of Bonds;

(3) Refunding bonds or other obligations issued to provide land or facilities which are, or are to become, a part of the System or which are or were payable in whole or in part from revenues of the System;

(4) Funding the Debt Service Reserve Funds or restoring the value of the cash and securities in the Debt Service Reserve Funds to the amounts equal to their Reserve Requirements, if any, and reimbursing amounts owed to any providers of a surety bond, line of credit, insurance policy or letter of credit established pursuant to Section 8.04(D) hereof; and

(5) Paying the costs of issuance of Bonds, including any credit enhancement therefor, but subject to the terms, limitations and conditions herein, the District may authorize the issuance of a Series of Bonds by the adoption of a Series Resolution, and the Bonds of any such Series may be issued and delivered upon compliance with the provisions of this Article. The Bonds of each Series shall be issued in fully registered form, without coupons. The Bonds shall, in addition to the title Spartanburg Sanitary Sewer District, State of South Carolina, Sewer System Revenue Bonds, bear a letter or number Series designation as may be necessary to distinguish them from the Bonds of every other Series and shall designate the year in which the Series is issued. Bonds of any Series may be authorized to be issued in the form of Serial Bonds or Term Bonds, with or without mandatory sinking fund payments, or Capital Appreciation Bonds, or a combination of any of them, and may bear interest in whatever manner and payable at whatever frequency as shall be prescribed by the applicable Series Resolution.

(B) Each Series Resolution shall include a determination by the District to the effect that the issuance of such Series of Bonds is necessary to provide funds to be used and expended for one or more of the purposes set out in Section 4.01(A) hereof. Each Series Resolution shall specify and determine:

(1) The then current period of usefulness of the System;

(2) The Date of Issue of such Series of Bonds;

(3) The maximum authorized principal amount of such Series of Bonds, and the manner of determining the precise principal amount and the officials authorized to make such determination;

- (4) The Bond Payment Dates for the Bonds in such Series and the Record Dates, and the date or dates of maturity and the amounts thereof, or the manner of determining such dates and amounts and the officials authorized to make such determinations, provided that the Series Resolution shall specify a date beyond which the final maturity of such Series shall not extend;
- (5) The specific purposes for which such Series of Bonds is being issued;
- (6) The title and designation of the Bonds of such Series;
- (7) The manner in which Bonds of such Series are to be sold and provisions for the sale thereof;
- (8) The interest rate or rates, or the manner of determining such rate or rates, of the Bonds of such Series, including whether and on what terms there shall be entered by the District an agreement for any form of interest rate hedge or similar transaction with respect to such Series;
- (9) The portion of such Series that are Serial Bonds and that are Term Bonds and that are Capital Appreciation Bonds, if any, including the amount and date of each mandatory redemption or sinking fund installment, if any, required by such Series Resolution to be paid for the retirement of any such Bonds, or the manner of making such designations and the officials authorized to make such designations;
- (10) The redemption price or redemption prices and the redemption date or redemption dates and other terms of redemption (if any) applicable to any of the Bonds of such Series for such payments, or the manner of determining such dates and prices and the officials authorized to make such determinations;
- (11) The Trustee, the Registrar and the Paying Agent for such Bonds if it is determined that an institution other than the Trustee shall act in either capacity, and the escrow agent if such Bonds are advance refunding bonds;
- (12) The form or forms of the Bonds of such Series;
- (13) The manner of numbering and lettering, and the denomination or denominations of the Bonds of such Series;
- (14) Whether the Bonds of such Series shall be issued in book-entry form pursuant to Section 4.20 hereof;
- (15) That the then applicable Reserve Requirement for all Series of Bonds Outstanding and for the proposed Series of Bonds, has been or will be met;
- (16) The disposition or application of the proceeds of the sale of such Series of Bonds;
- (17) That a Debt Service Fund shall be established for the Series of Bonds, and that a construction fund shall be established if the proceeds of the Bonds of any Series are intended to be used for the expansion or improvement of the System, and that a

capitalized interest account shall be established within any such Debt Service Fund if interest for any period is to be paid from proceeds of such Series of Bonds; and

(18) Any other provisions or funds deemed advisable by the District for the Bonds and any other applicable redemption requirement for the Bonds of such Series and the method of satisfying the same and not in conflict with or in substitution for the provisions of this Bond Resolution.

Section 4.02 Conditions to Issuance of Bonds of a Series.

All Bonds shall be issued in compliance with the following provisions of this Section 4.02:

(1) Bonds shall be stated to mature and/or have mandatory or sinking fund redemptions on the dates and in the amounts prescribed, or approved in the manner established, by the Series Resolution.

(2) Bonds shall bear interest at the rates and on the occasions prescribed, or approved in the manner established, by the Series Resolution.

(3) Bonds shall be issued for a purpose or purposes set forth in Section 4.01(A) hereof.

(4) There shall exist, on the occasion of the issuance of the Bonds, no default in the payment of the principal of or interest on any Bonds, General Obligation Bonds or Junior Lien Bonds then Outstanding.

(5) The District shall obtain an opinion of Bond Counsel to the effect that (a) this Bond Resolution and the Series Resolution have been duly and lawfully adopted and are in full force and effect; (b) the Bonds have been duly and lawfully authorized, executed and issued by the District and are valid and binding upon, and enforceable against, the District (except to the extent that the enforceability thereof may be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); and (c) with respect to such Bonds, this Bond Resolution creates the valid pledge of the Gross Revenues subject to the application thereof to the purposes and on the conditions permitted by this Bond Resolution.

(6) Unless on the date of delivery of such Series of Bonds there shall be on deposit in each Debt Service Reserve Fund an amount equal to the applicable Reserve Requirement immediately following the issuance of such Series of Bonds, there shall be deposited in each Debt Service Reserve Fund such amount as is necessary to make the value of the moneys and securities in each Debt Service Reserve Fund equal to the applicable Reserve Requirement.

(7) Except in the case of the initial Series of Bonds issued hereunder (for purposes of this paragraph 4.02(7), the issuance of the first Series and the North Tyger River Interceptor Loan being together deemed "the initial Series of Bonds issued hereunder"), and except in the case of a Series or a portion of a Series of Bonds issued for the purpose of refunding any Bonds and which Series or portion meets the test prescribed in Section 4.02(8) hereof, and in any event subject to the provisions of Section 4.02(9) hereof, the following requirements must be met:

(A) Net Earnings must be projected by the Feasibility Consultants for each of the five Fiscal Years immediately following the Fiscal Year in which the proposed Series of Bonds is issued. To demonstrate consistency with actual results, such projection of Net Earnings shall be based on the District's audited financial statements for the most recent Fiscal Year for which audited financial statements are available, together with the Annual Budget adopted by the Commission for the current Fiscal Year, as adjusted to reflect:

(i) an evaluation of the assumptions underlying any projected growth in demand or increase in the number of utility customers, in order to ensure the consistency of historical trends with future expectations;

(ii) a computation of projected revenues from user charges, including any adjustments necessary to reflect projected demand, the projected customer base, and projected rates; provided that any projected rate adjustments may be given effect only in Fiscal Years, or portions thereof, following the expected implementation thereof, and must reflect the effect on revenues of the proposed rate adjustments relative to historical trends; and

(iii) projected expenses for the operation and maintenance of the System, including an evaluation of historical trends and expectations for specific cost increases as new facilities (including facilities financed with the proceeds of the proposed Series of Bonds) are placed into service.

Such projection of Net Earnings may also be adjusted to reflect the following:

(a) in the event proceeds of such proposed Series of Bonds will be used to acquire a sewer utility, system or enterprise that is in existence and operating and whose current customers will become customers of the System upon such acquisition, 100% of the estimated Net Earnings to be received by the System during the first Fiscal Year beginning after the date of completion of the acquisition, as projected by the person or firm making the projection of Net Earnings, from the sewer utility, system or enterprise to be acquired with the proceeds of such proposed Series of Bonds; provided, however, that this adjustment shall be made only for Fiscal Years following the completion of such acquisition;

(b) in the event proceeds of such proposed Series of Bonds will be used to construct or to acquire a newly-constructed sewer utility, system, enterprise, or component of the System that will serve a currently-populated area, 100% of the Net Earnings, estimated by the Feasibility Consultants, to be received by the System during the first Fiscal Year beginning after the date on which such project constructed or acquired with the proceeds of the proposed Series of Bonds is placed in service; provided, however, that this adjustment shall be made only for Fiscal Years following the completion of such construction or acquisition;

(c) in the event proceeds of such proposed Series of Bonds will be used to construct or to acquire an expansion to the System, 100% of estimated Net Earnings to be received by the System in the first Fiscal Year following the

completion of such project, certified by the Feasibility Consultants, from customers under long-term contracts that extend for the life of such proposed Series of Bonds; provided, however, that this adjustment shall be made only for Fiscal Years following the completion of such construction or acquisition; and

(d) any amount allowed by any of clauses (a), (b) and (c) set forth above as an adjustment with respect to a previously-issued Series of Bonds if the proposed Series of Bonds is being issued prior to the end of the first Fiscal Year in which the construction or acquisition financed by the previously-issued Series of Bonds is completed.

(B) Receipts from ad valorem property taxes levied by the District for General Obligation Bond debt service must be projected for each of the five Fiscal Years immediately following the Fiscal Year in which the proposed Series of Bonds is issued. Such projection shall not assume any expansion of the boundaries of the District that has not already been finally enacted by the appropriate governmental body.

(C) (i) During each Fiscal Year for which Net Earnings and tax receipts are required to be projected pursuant to paragraphs (A) and (B) above, the sum of Net Earnings so projected for such Fiscal Year, plus the amount of receipts from ad valorem property taxes levied by the District for debt service on General Obligation Bonds so projected for such Fiscal Year, shall be not less than one hundred percent (100%) of the sum of the Combined Annual Principal and Interest Requirement for such Fiscal Year on all Bonds Outstanding at the time of issuance (including such proposed Series of Bonds), plus the amount of debt service for such Fiscal Year on all General Obligation Bonds outstanding at the time of issuance of the proposed Series of Bonds; and

(ii) The sum of Net Earnings and receipts from property taxes to be levied by the District for General Obligation Bond debt service as projected pursuant to paragraphs (A) and (B) above, in the fifth Fiscal Year, shall be not less than one hundred percent (100%) of the sum, in any Fiscal Year in which Bonds Outstanding at the time of issuance of the proposed Series of Bonds (including such proposed Series) will remain Outstanding, of (a) the Combined Annual Principal and Interest Requirement on all Bonds Outstanding at the time of issuance (including such proposed Series of Bonds), plus (b) the amount of debt service on all General Obligation Bonds outstanding at the time of issuance of the proposed Series of Bonds.

(D) (i) During each Fiscal Year for which Net Earnings are required to be projected pursuant to paragraph (A) above, Net Earnings as so projected for each such Fiscal Year shall be not less than one hundred ten percent (110%) of the amount that equals "x minus y", where "x" equals the Combined Annual Principal and Interest Requirement for each such Fiscal Year on all Bonds Outstanding at the time of issuance (including such proposed Series of Bonds), and "y" equals the lesser of (i) the difference between (a) the amount projected pursuant to the provisions of paragraph (B) to be received by the District from ad valorem property taxes levied for debt service on General Obligation Bonds in such Fiscal Year and (b) the amount of debt service on General Obligation Bonds (that were General Obligation Bonds at the time of issuance of the proposed new Series of Bonds) that is projected to be paid from ad valorem property tax receipts in such Fiscal Year and (ii) the amount of debt service on Bonds Outstanding in each such Fiscal Year that are convertible into General Obligation Bonds in such Fiscal Year for which the calculation is being made; and

(ii) Net Earnings forecasted pursuant to paragraph (A) above in the fifth (5th) Fiscal Year shall be not less than one hundred ten percent (110%) of the amount determined as "x minus y", in each Fiscal Year after the fifth (5th) Fiscal Year in which Bonds Outstanding at the time of issuance of the proposed Series of Bonds (including such proposed Series of Bonds) will remain Outstanding, where "x" equals the Combined Annual Principal and Interest Requirement for each such Fiscal Year on all Bonds Outstanding at the time of issuance (including such proposed Series of Bonds), and "y" equals the lesser of (i) the difference between (a) the amount projected pursuant to the provisions of paragraph (B) to be received by the District from ad valorem property taxes levied for debt service on General Obligation Bonds in such fifth (5th) Fiscal Year and (b) the amount of debt service on General Obligation Bonds (that were General Obligation Bonds at the time of issuance of the proposed new Series of Bonds) that is projected to be paid from ad valorem property tax receipts in such Fiscal Year and (ii) the amount of debt service on Bonds Outstanding in each such Fiscal Year that are convertible into General Obligation Bonds in such Fiscal Year for which the calculation is being made.

(E) The forecasts and projections required by this subsection 4.02(7) shall be made, and the required coverage ratios shall on the basis of such forecasts and projections be certified, by the Accountant or by the Feasibility Consultants; provided, however, that in the instance of any Series of Bonds in the aggregate principal amount of \$3,000,000 or less, such forecasts, projections and certifications may be made by the District Representative.

(8) In lieu of compliance with Section 4.02(7) hereof, in the case of a Series or a portion of a Series of Bonds issued for the purpose of refunding any Bonds, the Annual Principal and Interest Requirements of the refunding Bonds shall not exceed the Annual Principal and Interest Requirements of the refunded Bonds for any Fiscal Year until a time subsequent to the last maturity of said refunded Bonds. In addition, maximum Annual Principal and Interest Requirements on all Bonds Outstanding after the refunding will not exceed the maximum Annual Principal and Interest Requirements on all Bonds Outstanding prior to the refunding.

(9) Any proceedings authorizing the issuance of Bonds or Junior Lien Bonds may prescribe, in addition to the requirements set forth in Sections 4.02(7) and 4.02(8) hereof, further requirements that must be met for the issuance of Bonds either on a parity with such Bonds or senior to such Junior Lien Bonds.

(10) If any Series of Bonds shall contain Variable Rate Bonds:

(A) The Series Resolution shall provide for and specify a maximum interest rate on (i) such Bonds and (ii) any reimbursement obligation to a liquidity provider for such Bonds;

(B) The liquidity provider for such Bonds shall be rated in one of the three (3) highest short term rating categories by either Moody's or S&P; and

(C) Any accelerated principal payments or any interest computed at a rate in excess of that on such Bonds due to the liquidity provider for such Bonds pursuant to any reimbursement agreement with such liquidity provider shall be subordinate to the payment of debt service on all Bonds; provided,

however, if the tests referred to in Section 4.02(7) and 4.02(8) of this Bond Resolution are calculated (and met) assuming such accelerated principal payment and such excess interest amount to the liquidity provider, then such accelerated principal payment and excess interest amount may be on a parity with the payment of debt service on all Bonds.

(11) All amounts owing under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 8.04(D) hereof shall have been paid.

Section 4.03 Reliance Upon Certificates.

The District, the Trustee and any purchaser of any Bonds shall be entitled to rely upon reports of Accountants or certificates of the Feasibility Consultants, made in good faith, pursuant to any provision of this Article.

Section 4.04 Execution of Bonds.

(A) Unless otherwise prescribed by any Series Resolution, the Bonds shall be executed in the name of and on behalf of the District by the Chairman, the corporate seal of the District shall be impressed or reproduced thereon and the same shall be attested by the Secretary. Such officers may employ facsimiles of their signatures.

(B) In case any officer whose signature or facsimile signature shall appear on the Bonds shall cease to be such officer before the delivery of any Bond, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office.

Section 4.05 Authentication.

Except for Bonds consisting of contract obligations not in the form of an instrument, such Bonds as shall have endorsed thereon a certificate of authentication duly executed by the Trustee or the Registrar shall be entitled to any right or benefit under this Bond Resolution. No such Bond shall be valid or obligatory for any purpose unless and until such certificate of authentication shall have been duly executed by the Trustee or Registrar, and such executed certificate of the Trustee or Registrar upon any such Bond shall be conclusive evidence that such Bond has been authenticated and delivered under this Bond Resolution. The Trustee's certificate of authentication on any such Bond shall be deemed to have been duly executed by it if signed by any authorized officer of the Trustee or by any authorized officer of the Registrar.

Section 4.06 Medium of Payment.

The Bonds shall be payable with respect to principal, interest, and premium, if any, in lawful money of the United States of America.

Section 4.07 Mutilated, Lost, Stolen or Destroyed Bonds.

In the event any Bond is mutilated, lost, stolen or destroyed, the District may execute and the Trustee may authenticate a new Bond of the same Series of like date, maturity and denomination as that mutilated, lost, stolen or destroyed; provided that, in the case of any mutilated Bond, such mutilated Bond shall first be surrendered to the Trustee, and in the case of any lost, stolen or destroyed Bond, there shall be first furnished to the District and to the Trustee evidence of such loss, theft or destruction satisfactory to the District and the Trustee together with indemnity satisfactory to them. In the event any such Bond shall have matured, instead of issuing

a duplicate Bond, the District may pay the same. The District and the Trustee may charge the Holder or owner of such Bond with their reasonable fees and expenses in this connection.

Section 4.08 Transfer and Registry; Persons Treated as Owners.

(A) As long as any Bonds in registered form shall be Outstanding, the District shall cause books for the registration and for the transfer of such Bonds to be kept. Such books shall be kept by the Trustee unless there shall have been appointed a Registrar other than the Trustee to keep the books of registration for any particular Series of Bonds. The transfer of each such Bond may be registered only upon the registration books of the District kept for that purpose by the registered owner thereof in person or by his duly authorized attorney upon surrender thereof and an assignment with a written instrument of transfer satisfactory to the Trustee or the Registrar, as the case may be, duly executed by the registered owner or his duly authorized attorney. Upon the registration or transfer of any registered Bond, the District shall cause to be issued, subject to the provisions of Section 4.11 hereof, in the name of the transferee a new Bond or Bonds of the same aggregate principal amount, maturity and interest rate as the surrendered Bond.

(B) Except as provided in Section 18.01 hereof, the District, the Trustee, and any Registrar or Paying Agent may deem and treat the person in whose name any registered Bond shall be registered upon the registration books of the District as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of, premium (if any) and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner, or upon his order, shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid; and none of the District, the Trustee and any Registrar or Paying Agent shall be affected by any notice to the contrary.

(C) Notwithstanding anything in paragraphs (A) and (B) of this Section 4.08 to the contrary, Bonds may be issued in the form of contractual obligations which are not instruments, which may be transferred as provided in such contracts.

Section 4.09 Date and Payment Provisions.

Unless otherwise provided in any Series Resolution with respect to Bonds issued thereunder, each Bond of a Series shall be authenticated on such date as it shall be delivered. Each Bond shall bear interest from the Date of Issue if no interest has yet been paid; otherwise from the last date to which interest has been paid and which date is on or prior to the date of such Bond's authentication.

Owners of at least \$1,000,000 principal amount of Bonds may, by written notice containing wiring instructions filed with the Trustee at least 20 days prior to any Bond Payment Date, provide for the payment of the interest on or the redemption price of such Bonds by wire transfer to an account at a bank located in the continental United States.

Section 4.10 Transferability of Bonds.

Bonds of a Series, upon surrender thereof at the office of the Trustee or the Registrar, as the case may be, for the Bonds of such Series with a written instrument of transfer satisfactory to the Trustee or the Registrar, duly executed by the Holder or his duly authorized attorney, may, at

the option of the Holder and upon payment by such Holder of any charges made pursuant to Section 4.11 hereof, be exchanged for an equal aggregate principal amount of Bonds of such Series of like maturity and interest rate of any other authorized denominations.

Section 4.11 Regulations With Respect to Exchanges and Transfer.

In all cases in which the privilege of exchanging or transferring Bonds is exercised, the District shall execute and the Trustee or the Registrar, as the case may be, shall authenticate and deliver Bonds in accordance with the provisions of this Bond Resolution. All Bonds surrendered in any such exchanges or transfers shall forthwith be cancelled and destroyed and shall not be reissued, and a counterpart of the certificate of destruction evidencing such destruction shall be furnished by the Trustee or the Registrar, as the case may be, to the District. All Bonds so destroyed shall thereafter no longer be considered Outstanding for any purposes of this Bond Resolution. There shall be no charge to the Holder for such exchange or transfer of Bonds except that the Trustee or the Registrar, as the case may be, may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or transfer. Neither the District nor the Trustee or the Registrar, as the case may be, shall be required to register, transfer or exchange Bonds of a Series during the period between a Record Date and its related Bond Payment Date, or during the period beginning 15 days prior to any selection of Bonds for redemption and ending upon the mailing of any notice of redemption; nor shall either be required to register, transfer or exchange any Bonds called for redemption

Section 4.12 Cancellation and Destruction of Mutilated, Paid or Surrendered Bonds.

Upon the surrender of mutilated Bonds pursuant to Section 4.07 hereof, or Bonds paid or surrendered, the same shall be cancelled and destroyed and shall not be reissued, and a counterpart of the certificate evidencing such destruction shall be furnished by the Trustee or the Registrar, as the case may be, to the District. All Bonds so destroyed shall thereafter no longer be considered Outstanding for any purposes of this Bond Resolution.

Section 4.13 Notice of Redemption.

If any of the Bonds, or portions thereof, are called for redemption, the Trustee shall give notice to the Holders of any Bonds to be redeemed, in the name of the District, of the redemption of such Bonds, or portions thereof. Notice of each redemption of Bonds is required to be mailed by the Trustee by first class mail, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date to each registered owner of Bonds to be redeemed, at the address of such owner recorded on the bond register and to be otherwise given in accordance with, among others, the following requirements:

(1) notices must contain, at a minimum, the complete official name of the Bonds, CUSIP number, Bond numbers, principal amount of each Bond to be redeemed (if less than all), publication date, redemption date, redemption price, redemption agent's name and address with contact person and phone number, Trustee's name and address, date of the Bonds, interest rate, maturity date, the place or places where amounts due will be payable, and any other descriptive information deemed necessary by the Trustee;

(2) notices must be sent to Bondholders of \$1,000,000 or more, to at least two national information services, and any Securities Depository by certified mail--return receipt requested; notices sent to any Securities Depository must be sent so that such

notice is received by such Securities Depository at least two days prior to the mailing of such notices to Bondholders, in addition, any Bondholder holding in excess of \$1,000,000 principal amount of Bonds may request the Trustee to send notices to any additional addressee specified;

(3) a second notice to registered owners of the Bonds must be mailed by the means specified above to any registered owner of Bonds who has not presented Bonds for redemption 60 days after the redemption date, unless the registered owner holds the Bonds as depository under a book-entry system;

(4) notice of redemptions effected by advance refundings must also be given in accordance with the above requirements at least fifteen (15) days but no more than ninety (90) days prior to the actual redemption date;

(5) CUSIP number identification with appropriate dollar amounts for each CUSIP number must accompany all redemption payments and interest payments, whether by check or by wire transfer; and

(6) except with respect to mandatory sinking fund redemptions, no notice of redemption shall be sent unless sufficient funds have previously been deposited with the Trustee to pay the redemption price of the Bonds to be redeemed.

The failure of the Trustee to give notice to a Bondholder or any defect in such notice shall not affect the validity of the redemption of any other Bonds for which notice is properly given. Any Bondholder may waive notice of redemption by delivery of a written waiver to the Trustee.

Any Series Resolution providing for the issuance of Bonds consisting of contractual obligations not in the form of an instrument or providing for Bonds may provide alternative methods for delivery of notice of redemption.

Provided sufficient funds for such redemption are on deposit with the Trustee or Paying Agent, all Bonds so called for redemption shall cease to bear interest on the specified redemption date and shall no longer be deemed to be Outstanding hereunder. If said money shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

Section 4.14 Cancellation of Bonds That Have Been Redeemed.

All Bonds that have been redeemed shall be cancelled and destroyed by the Trustee and shall not be reissued, and a counterpart of the certificate of destruction evidencing such destruction shall be furnished by the Trustee to the District. All Bonds so destroyed shall thereafter no longer be considered Outstanding for any purposes of this Bond Resolution.

Section 4.15 Selection of Bonds To Be Redeemed.

In the event that less than all of the Bonds of any Series are to be redeemed at the option of the District, Bonds to be redeemed shall be in such order of maturity as selected by the District. In the event of redemption of less than all of the Bonds of a Series of any maturity, the Bonds or portions of Bonds to be redeemed, shall be selected by lot by the Trustee. The portion of any Bond of a denomination which is larger than the minimum denomination for the Bonds of such Series shall be in the principal amount of such minimum denomination or a multiple thereof, and

that, in selecting portions of such Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of minimum denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by the amount of the minimum denomination; provided further that, if less than all of the beneficial interests in a Bond of a single maturity registered in the name of a Securities Depository or a Securities Depository Nominee are to be redeemed, the beneficial interests to be redeemed shall be selected by lot by the Securities Depository. If there shall be drawn for redemption less than all of a Bond, the District shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, Bonds of the same Series in any authorized denomination.

Section 4.16 Restriction on Optional Redemption.

Notwithstanding anything in this Bond Resolution to the contrary, no optional redemption of Bonds may occur unless all amounts payable by the District owing under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 8.04(D) hereof shall have been paid in full.

Section 4.17 Purchase of Bonds.

The Trustee shall, if and to the extent practicable, purchase Bonds at the written direction of the District at such time, in such manner and at such price as may be specified by the District. The Trustee may so purchase Bonds for cancellation with any money then held by the Trustee which is available for the redemption or purchase of Bonds and in excess of that set aside for the payment of Bonds called for redemption; provided, that the Trustee is provided with an opinion of Bond Counsel to the effect that such redemption or purchase complies with any limitations or restrictions on such redemption or purchase contained in this Bond Resolution.

Section 4.18 Security for Payment of Bonds; Priority of Lien.

The Bonds shall be payable solely from and shall be secured by a pledge of and a lien upon the Gross Revenues of the System. Such pledge and lien securing the Bonds at all times and in all respects shall be and remain superior to pledges and liens made to secure any other bonds or other obligations payable from the revenues of the System. The Bonds shall not constitute an indebtedness of the District within the meaning of any provision, limitation or restriction of the Constitution or the laws of the State, other than those provisions authorizing indebtedness payable solely from a revenue-producing project not involving revenues from any tax or license; and the faith, credit and taxing power of the District are expressly not pledged therefor. The District is not obligated to pay any of the Bonds or the interest thereon except from the Gross Revenues of the System.

Section 4.19 Bonds May Be Converted to General Obligation Bonds.

Pursuant to the provisions of a Series Resolution, the Commission may authorize a Series of Bonds, or any portion thereof, to be converted to General Obligation Bonds authorized pursuant to the provisions of Act No. 1503 of the Acts and Joint Resolutions of the General Assembly for the year 1970. In such event, such Series Resolution shall provide for the procedure for selecting the Bonds of such Series and all other provisions governing such occurrence. All Bonds which are converted to General Obligation Bonds shall be governed by the provisions of Article V hereof.

Section 4.20 Bonds in Book-Entry Form.

Notwithstanding any other provision of this Bond Resolution with respect to the form of Bonds to the contrary, the District is hereby authorized to provide by Series Resolution for the issuance of one or more Series of Bonds solely in fully registered form registrable to a Securities Depository, a Securities Depository Nominee or the beneficial owner of the Bonds. The District is further authorized to provide by Series Resolution that such Series of Bonds shall be evidenced by one or more certificates or by a system of book entries in form satisfactory to the District Representative and to provide for payment, redemption, notices and like provisions in a manner consistent with such system of registration.

Section 4.21 Waiver of Certain Provisions.

Notwithstanding anything in this Bond Resolution to the contrary, whenever all of the debt issued or all of the obligations incurred by the District under a Series Resolution are acquired by and are held by a single entity, that single entity, at its sole option, may waive any provision or requirement of this Bond Resolution that relates separately to the governance of such Series and is for the protection and benefit of such single entity only and not for the protection or benefit of any other Holder or Holders of Bonds; provided that if such Series of Bonds is insured by an Insurer, then any such waiver shall require the prior written approval of such Insurer.

Section 4.22 Bonds not in the Form of an Instrument.

In the event that the District issues any Series of Bonds which are contractual obligations not in the form of an instrument, the provisions regarding redemption or prepayment of such Bonds, notices to Bondholders and transfers of such Bonds contained herein may be altered or supplemented by the provisions of the Series Resolution pursuant to which such Bonds are issued or the contract pursuant to which such obligations are created.

Section 4.23 Related Financial Transactions.

(a) Except for any Related Financial Transaction entered into before or on the date on which Bonds are first issued hereunder, the District shall not enter into any Related Financial Transaction unless (i) the long-term debt of the counterparty is rated, by each rating agency that maintains a rating for the counterparty's long-term debt, at least as high as the Series of Bonds to which such transaction relates; provided, however, that if the Series of Bonds to which the Related Financial Transaction relates are insured, in lieu of the forgoing requirement, the rating of the counterparty must be acceptable to the bond insurer; (ii) the conditions set forth in paragraph (D) of subsection 7 of Section 4.02 hereof for the issuance of additional Bonds are met with respect to the Series of Bonds to which such transaction relates as determined as of the effective date of such transaction and taking into account the Related Financial Transaction; and (iii) the Trustee has received an opinion of Bond Counsel, in form and substance satisfactory to the Trustee, that such transaction is permitted under this Bond Resolution and any applicable Series Resolution, is authorized under the laws of the State, will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any of the tax-exempt Bonds, and that the payments to be received by the District under the Related Financial Transaction are included as a part of the Gross Revenues.

(b) Amounts paid or received by the District in connection with a Related Financial Transaction shall be taken into account in the manner provided in clause (iv) of the definition of

Annual Principal and Interest Requirements in Section 2.01 hereof in determining the amount of interest due on the related Series of Bonds for purposes of payments pursuant to Article VIII and Section 6.01 hereof.

[End of Article IV]

ARTICLE V
CONVERSION TO GENERAL OBLIGATION BONDS

Section 5.01 Security for Payment of General Obligation Bonds.

All Bonds which have been converted to General Obligation Bonds are secured by the full faith, credit and taxing power of the District and the Commission hereby irrevocably pledges the full faith, credit and taxing power to the payment of all General Obligation Bonds.

Section 5.02 Order of Tax Levy to Pay Principal and Interest of General Obligation Bonds.

For the payment of the principal and interest on General Obligation Bonds as they respectively mature, and for the creation of such sinking fund as may be necessary therefor, there shall be levied annually by the Auditor of Spartanburg County, and collected by the Treasurer of such County, a tax as directed by the Commission sufficient to pay the principal and interest on such Bonds as they respectively mature and to create such sinking fund as may be necessary therefor.

[End of Article V]

ARTICLE VI RATES AND CHARGES

Section 6.01 Rate Covenant.

(A) It is hereby determined that the rates for services and facilities furnished by the System shall, until otherwise revised pursuant to the provisions of this Bond Resolution, be as now established. Said rates and charges are determined to be sufficient to meet the requirements of this Bond Resolution but they shall be revised whenever necessary in order that they shall at all times be maintained on a basis sufficient to meet the requirements of this Bond Resolution, and the District specifically covenants and agrees to maintain rates and charges for all services furnished by the System which shall at all times be sufficient:

(1) To provide for the punctual payment of the principal of and interest on all Bonds, that may from time to time hereafter be Outstanding, including any periodic payments required pursuant to any Related Financial Transaction, all Junior Lien Bonds and all General Obligation Bonds, but only to the extent that the District's ad valorem property tax collections are not sufficient to meet such obligations;

(2) To maintain the Debt Service Funds and thus provide for the punctual payment of the principal of and interest on the Bonds;

(3) To maintain each Debt Service Reserve Fund, if any, in the manner prescribed in the applicable Series Resolution,

(4) To provide for the payment of the Operation and Maintenance Expenses;

(5) To build and maintain a reserve for depreciation of the System, for contingencies and for improvements, betterments and extensions to the System other than those necessary to maintain the same in good repair and working order;

(6) To pay all amounts owing under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 8.04(D) hereof; and

(7) To discharge all obligations imposed by the Enabling Act and by the Bond Resolution.

(B) The District covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the System which, together with other income, are reasonably expected to yield annual Net Earnings in the current Fiscal Year equal to at least the sum of (i) one hundred ten percent (110%) of the Annual Principal and Interest Requirements for all Series of Bonds Outstanding in such Fiscal Year plus (ii) one hundred percent (100%) of the amount necessary to make payment of any amounts owing in such Fiscal Year under a reimbursement agreement with any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 8.04(D) hereof plus (iii) one hundred percent (100%) of the amount of debt service on any General Obligation Bonds in such Fiscal Year not paid from ad valorem property tax receipts, plus (iv) one hundred percent (100%) of the principal and interest on Junior Lien Bonds, plus (v) one hundred percent (100%) of any required payment into a Debt Service Reserve Fund due in such Fiscal Year; and, promptly upon any material change in the circumstances which were contemplated at the time

such rates and charges were most recently reviewed, but not less frequently than once in each Fiscal Year, shall review the rates and charges for its services and shall promptly revise such rates and charges as necessary to comply with the foregoing requirement. The foregoing covenant shall not, however be construed to require the levy of an *ad valorem* property tax for the benefit of the holders of Bonds. Prior to the beginning of each Fiscal Year, the District shall adopt an Annual Budget including amended rate schedules for such Fiscal Year which shall set forth in reasonable detail the estimated revenues and operating expenses and other expenditures of the System for such Fiscal Year and which shall include appropriations for the estimated operating expenses and the amount to be deposited during such Fiscal Year in the Depreciation and Contingent Fund. The District may at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year.

[End of Article VI]

ARTICLE VII
JUNIOR LIEN BONDS AND SPECIAL FACILITIES BONDS

Section 7.01 Right to Issue Junior Lien Bonds; Accession Thereof to Status of Bonds.

Notwithstanding that Bonds may be Outstanding, the District may at any time, and without limitation and free of all conditions issue Junior Lien Bonds, in such amount as it may from time to time determine, payable from the revenues of the System, provided that the pledge of revenues and any lien upon the revenues of the System granted for the protection of said Junior Lien Bonds, shall at all times be and remain subordinate and inferior in all respects to the pledges of revenues and liens upon such revenues made or authorized for the Bonds; and provided, further, that the maturity of Junior Lien Bonds may not be accelerated and paid in full unless all of the Bonds shall have been paid or provision therefor has been made pursuant to Article XVII hereof.

By proceedings authorizing the issuance of Junior Lien Bonds, the District may provide for the accession of such Junior Lien Bonds to the status of Bonds provided all of the following conditions are met. Any such subsequent proceedings adopted by the Commission providing for such accession shall make the findings provided in subparagraphs (1) through (4) and state whether and to what extent a Debt Service Reserve Fund shall be established as set forth in subparagraph (5).

(1) The Junior Lien Bonds were issued for a purpose or purposes set forth in Section 4.01(A) hereof.

(2) There shall exist on the date of accession (a) no default in the payment of the principal of or interest on any Bonds or any Junior Lien Bonds then Outstanding and (b) no default in the performance of any duties required under the provisions of this Bond Resolution and (c) no amount owed by the District with respect to the full funding of a Debt Service Reserve Fund, either by way of cash or reimbursement of any other funding mechanism.

(3) On the date of accession, the earnings tests prescribed by subparagraphs 7(i) and 7(ii) of Section 4.02 shall have been met.

(4) There shall be deposited in the Debt Service Fund for such Series of newly-acceded Bonds the amounts which would have been required under the provisions of Section 9.02 hereof to be accumulated therein on the date of accession if said Junior Lien Bonds had originally been issued as Bonds.

(5) In the event such proceedings require a Reserve Requirement to be maintained for such Series of newly-acceded Bonds, then in such event, there shall be on deposit on the date of accession in a Debt Service Reserve Fund an amount equal to the Reserve Requirement established for such Junior Lien Bonds which are being acceded to the status of Bonds.

(6) The District shall obtain an opinion of Bond Counsel to the effect that (a) this Bond Resolution and the proceedings authorizing such Junior Lien Bonds have been duly adopted and are in full force and effect; (b) the Junior Lien Bonds have been duly and lawfully authorized and executed by the District and are valid and binding upon, and enforceable against, the District (except to the extent that the enforceability thereof may

be limited by the operation of bankruptcy, insolvency and similar laws affecting rights and remedies of creditors); and (c) this Bond Resolution creates the valid pledge which it purports to create of the revenues and of moneys and securities on deposit in any of the funds established hereunder subject to the application thereof to the purposes and on the conditions permitted by this Bond Resolution.

(7) In the event such Junior Lien Bonds were issued with variable rates, the provisions of subparagraph (10) of Section 4.02 shall have been met.

Section 7.02 Right to Issue Special Facilities Bonds.

The District shall have at all times the right to enter into contracts, leases or other agreements pursuant to which it will agree to construct, operate and pay the costs of Special Facilities to be financed by its issuance of Special Facilities Bonds, subject to the following conditions:

(a) It shall have been determined to the satisfaction of the District that the rents, revenues or receipts to be derived from the Special Facilities shall be at least equal to the principal, interest and any reserve requirements contained in the resolution authorizing such Special Facilities Bonds and to pay all operation, maintenance and other costs and expenses applicable to such Special Facilities; and

(b) The revenues derived from Special Facilities need not be deposited in the General Revenue Fund, and may be pledged to secure Special Facilities Bonds; but no debt service or other costs or expense related to any Special Facilities may be paid from System revenues deposited in the General Revenue Fund except pursuant to Section 9.08 hereof.

For purposes of this Section 7.02, the term "Special Facilities" shall include all or a portion of sewer facilities and rights to all or a portion of the use of, or the capacity available from, any such facilities.

[End of Article VII]

ARTICLE VIII ESTABLISHMENT OF FUNDS

Section 8.01 Requirement for Special Funds.

For so long a time as any sum remains due and payable by way of principal or interest on Bonds, the following funds or accounts relating to the Gross Revenues of the System shall be established and maintained, and deposits shall be made therein in the manner herein required.

Section 8.02 The General Revenue Fund.

(A) There shall be established and maintained a fund or account designated as the General Revenue Fund. This account shall be so maintained as to reflect accurately:

- (1) the Gross Revenues of the System; and
- (2) the Net Earnings.

(B) Except as otherwise specifically directed or permitted herein, all Gross Revenues of the System shall be deposited in accordance with and in the manner prescribed by Article IX hereof into the General Revenue Fund. Money in the General Revenue Fund shall be withdrawn and made use of only in the manner and in the order of priority specified in Article IX hereof. So long as the District establishes, from an accounting standpoint, proper records of receipts and disbursements for the General Revenue Fund, the General Revenue Fund may be used for the purposes of the Operation and Maintenance Fund.

(C) In the event that a Series of Bonds is issued to provide funds for the installation of sewer collection lines and assessments are imposed on the properties specifically benefiting therefrom, then such assessments, front-foot or otherwise, may, to the extent required by law, be deposited directly into the Debt Service Funds or other account for such Series of Bonds.

Section 8.03 The Debt Service Funds.

(A) There shall be established and maintained a Debt Service Fund for each Series of Bonds Outstanding. The respective Debt Service Funds are intended to provide for the ratable payment of the principal of, redemption premium, if any, and interest on the respective Series of Bonds as the same respectively fall due. Payments into such Funds shall be made in the manner prescribed by this Bond Resolution, including the applicable provisions of Article IX, and, except as herein provided, all money in the respective Debt Service Funds shall be used solely to pay the principal of, redemption premium, if any, and interest on the respective Series of Bonds, and for no other purpose. Each Debt Service Fund shall bear a number Series designation as may be necessary to distinguish each Debt Service Fund.

(B) The Debt Service Funds shall be kept in the complete custody and control of the Trustee and withdrawals from the Debt Service Funds shall be made only by such Trustee who shall transmit to each Bondholder, at such times as may be appropriate, the sums required to pay the principal of, redemption premium, if any, and interest on the respective Series of Bonds. Amounts held by the Trustee due to non-presentment of Bonds on any redemption date must be retained by the Trustee for a period of at least one year after the final maturity of such Bonds.

(C) Money in the Debt Service Funds shall be invested and reinvested at the direction of the District Representative in Authorized Investments, maturing not later than the date on

which such money is required to pay the principal of, premium, if any, and interest next maturing. All earnings from such investments shall be added to and become a part of the Debt Service Fund in which such investments are held, but shall be credited against payments that would otherwise be made to such Debt Service Fund pursuant to the provisions of Section 9.02 hereof.

(D) There may be established in the respective Debt Service Funds from time to time a capitalized interest account to provide for the payment of interest on the Bonds of a particular Series. Any such account shall be created by the Series Resolution relating to the issuance of the Bonds of such Series. Any earnings from the investment of funds in the capitalized interest account not required to pay interest on the Bonds of any Series during the period for which interest on the Bonds of such Series is capitalized shall be deposited in the construction fund created by the Series Resolution relating to such Bonds or, if such construction fund has been terminated or no such fund was created, such earnings shall be retained in the appropriate Debt Service Fund.

(E) The Debt Service Fund for the North Tyger River Interceptor Loan shall be the "Note Payment Fund" previously established therefor and shall be governed in accordance with the terms thereof.

Section 8.04 The Debt Service Reserve Funds.

(A) Each Series Resolution may create a Debt Service Reserve Fund for the Series of Bonds authorized thereby. Any such Debt Service Reserve Fund shall bear a number Series designation as may be necessary to distinguish each Debt Service Reserve Fund and shall, subject to the other provisions of this Bond Resolution, be maintained in an amount equal to the Reserve Requirement for the particular Series of Outstanding Bonds for which such Fund has been established, for as long as such Series of Bonds shall be Outstanding. Each such Fund is intended to secure the timely payment of the principal of and interest on such Series of Bonds, and to provide for the redemption of such Bonds prior to their stated maturities. Money in each Debt Service Reserve Fund shall be used for the following purposes, and for no other:

(1) To prevent a default in the payment of the principal of or interest on the applicable Series of Bonds, by reason of the fact that money in applicable Debt Service Fund is insufficient for such purposes;

(2) To pay the principal of, interest on, and redemption premium of the applicable Series of Bonds in the event that all Outstanding Bonds of such Series are to be redeemed as a whole; or

(3) To effect partial redemption of the applicable Series of Bonds; but subject to the restrictions of Section 4.16 hereof and provided that subsequent to said partial redemption, the market value of the cash and securities in such Debt Service Reserve Fund shall be not less than its Reserve Requirement.

The requirements for and provisions governing any Debt Service Reserve Fund in the remainder of this Bond Resolution, in references to "the Debt Service Reserve Fund", "the Reserve Requirement", the "Debt Service Fund(s)" and "the Bonds", shall be deemed to refer to each such Debt Service Reserve Fund created by a Series Resolution, and in each case to the respective Reserve Requirement and Debt Service Fund for the respective Series of Bonds, and to Bonds only of that respective Series and not to any other Bonds.

(B) Each Debt Service Reserve Fund shall be kept in the complete custody and control of the Trustee and withdrawals therefrom shall be made only by such Trustee who shall transmit to a Bondholder of such Series at such times as may be appropriate, the sums required to pay the principal of, redemption premium, if any, and interest on such Series of Bonds; provided, however, that the Debt Service Reserve Fund for the North Tyger River Interceptor Loan as defined in Section 1.01 hereof shall remain in the custody of First-Citizens Bank and Trust Company, until such time as First-Citizens Bank and Trust Company ceases to act as custodian pursuant to the terms of its agreement therefor with the District and the terms of the Loan Agreement relating thereto.

(C) Money in each Debt Service Reserve Fund shall be invested and reinvested by the Trustee at the written direction of the District Representative in Authorized Investments. Except with the written consent of the Insurer insuring such Series of Bonds, the term to maturity of Authorized Investments in any Debt Service Reserve Fund shall not be greater than five (5) years. Subject to the remaining provisions of this paragraph (C), the earnings from such investments in a particular Debt Service Reserve Fund shall be added to and become a part of that Debt Service Reserve Fund. Whenever, and as of any date of calculation, the value of the securities and money in any Debt Service Reserve Fund shall exceed its Reserve Requirement, such excess shall, at the option of the District as determined by the District Representative thereof, either be used to effect partial redemption of such Series of Bonds, or transferred into the Debt Service Fund for such Series of Bonds, or transferred to a construction fund then established pursuant to a Series Resolution. In the case of a consolidated Debt Service Reserve Fund for several Series of Bonds, the amount eligible to be transferred to a construction fund shall be equal to the investment earnings that have accrued in the consolidated Debt Service Reserve Fund since the later of (i) the most recent transfer out of the consolidated Debt Service Reserve Fund and (ii) the creation of such construction fund and that are attributable to a portion of the consolidated Debt Service Reserve Fund not greater than the maximum Annual Principal and Interest Requirement of the Series of Bonds authorized by the Series Resolution that established such construction fund. Any transfer of excess to the Debt Service Funds from a consolidated Debt Service Reserve Fund shall be in proportion to the next monthly payments then scheduled to be made into such Debt Service Funds pursuant to Section 9.02 of this Bond Resolution.

(D) Notwithstanding anything in this Bond Resolution to the contrary, the District, in lieu of the deposit of moneys into a Debt Service Reserve Fund, may satisfy the applicable Reserve Requirement by causing to be credited to such Debt Service Reserve Fund an irrevocable and unconditional surety bond, line of credit, letter of credit or insurance policy payable to the Trustee or the Paying Agent for the benefit of the Holders of the Bonds of the applicable Series in an amount which, together with other moneys on deposit in such Debt Service Reserve Fund, is equal to such Reserve Requirement. In the event the amount on deposit in, or credited to, a Debt Service Reserve Fund, in addition to the amount available under the surety bond, line of credit, insurance policy or letter of credit in question (the "Original Funding Instrument") includes amounts available under another surety bond, line of credit, insurance policy or letter of credit (the "Additional Funding Instrument"), draws on the Original Funding Instrument and the Additional Funding Instrument shall be made on a *pro rata* basis to fund any insufficiency in the Debt Service Fund. In the event a Debt Service Reserve Fund is funded with both monies and a surety bond, line of credit, insurance policy or letter of credit, (1) any withdrawals from such Debt Service Reserve Fund shall be made first from such monies (or the liquidation of investments made therewith) and second from such surety bond, line of credit, insurance policy or letter of credit, and (2) deposits to such Debt Service Reserve Fund pursuant to Section 9.03 shall be used first to reinstate the surety bond, line of credit, insurance policy or letter of credit and second to restore the cash balance. The surety bond, line of credit, insurance policy or letter of

credit shall be payable (upon the giving of notice as required thereunder) on any Bond Payment Date on which moneys will be required to be withdrawn from such Debt Service Reserve Fund and applied to the payment of the principal of or interest on the Outstanding Series of Bonds to which such surety bond, line of credit, insurance policy or letter of credit relates when such payments cannot be made by amounts otherwise credited to such Debt Service Reserve Fund.

(E) (1) The company providing such surety bond, line of credit, letter of credit or insurance policy, or, in lieu thereof, the guarantor of such company's obligations under such surety bond, line of credit, letter of credit or insurance policy, shall be a company whose municipal bond insurance policies insuring the payment of the principal of and interest on municipal bond issues, or whose guarantee of such policies, results in such issues being rated (if rated at all) in the highest rating category by S&P and Moody's or their respective successors and, if rated by A.M. Best & Company, such company must also be rated in the highest rating category by A.M. Best & Company. The letter of credit issuer shall be a bank or trust company which is rated not lower than the second highest rating category by S&P and Moody's or their successors, and the letter of credit itself shall be rated in the highest category of either such rating agency. The insurance policy or surety bond must extend for the life of the Series of Bonds which receive the benefit of the same and must be unconditional and irrevocable. If a letter of credit or line of credit is provided under the provisions of this paragraph, then within sixty (60) days prior to the stated expiration date of any said letter of credit or line of credit which does not extend for the term of the Series of Bonds as to which the same applies, (i) the District shall, after giving written notice to the Trustee, obtain another letter of credit or line of credit, as the case may be; or (ii) the Trustee shall, at the written direction of the District, draw upon the letter of credit or line of credit, as the case may be, in order to fund the applicable Debt Service Reserve Fund with cash; or (iii) the District shall, after giving written notice to the Trustee, fully fund the applicable Debt Service Reserve Fund with cash or Authorized Investments. If a disbursement is made pursuant to a surety bond, a line of credit, an insurance policy or a letter of credit provided pursuant to this paragraph, the District shall be obligated either (a) to reinstate the maximum limits of such surety bond, line of credit, insurance policy or letter of credit, or (b) to deposit into such Debt Service Reserve Fund cash in the amount of the disbursement made under such surety bond, line of credit, insurance policy or letter of credit, or a combination of such alternatives, as shall provide that the amount credited equals the Reserve Requirement on the respective Series of Bonds within a time period not longer than one (1) year. The Trustee shall receive such opinions, including legal opinions, certificates and other documentation, as the Trustee shall request, prior to receipt of such surety bond, letter of credit, line of credit or insurance policy by the Trustee.

(2) If a surety bond, insurance policy, line of credit or letter of credit on deposit in a Debt Service Reserve Fund shall be terminated (other than on its stated expiration date), may not be drawn upon for any reason, or shall otherwise no longer be in compliance with the provisions of this Section 8.04(E), the District shall either (a) replace such surety bond, insurance policy, line of credit or letter of credit with a substitute which complies with the provisions of Section 8.04(D), or (b) commence making deposits of Gross Revenues to the Debt Service Reserve Fund over a period not longer than twelve (12) months after the date of such termination until the amount on deposit in such Debt Service Fund equals the applicable Reserve Requirement.

(F) The Debt Service Reserve Fund for the North Tyger River Interceptor Loan shall be the "Debt Service Reserve Fund" previously established therefor and shall be governed in accordance with the terms thereof. If, in accordance with the terms of the North Tyger River

Interceptor Loan a Debt Service Reserve Fund is at any time not required, then none shall be required by this Resolution.

(G) Notwithstanding the requirement of Section 8.04(A) above, any Series Resolution may designate the Debt Service Reserve Fund for the Series of Bonds authorized thereby to be consolidated with the Debt Service Reserve Fund for each other Series so designated, in which case all such designated Series shall be considered in the aggregate as a single Series for all purposes related to the consolidated Debt Service Reserve Fund; and further provided that the Debt Service Reserve Fund for the North Tyger River Interceptor Loan may be so consolidated at any time with the consent of the South Carolina Water Pollution Control Revolving Fund Authority.

Section 8.05 The Operation and Maintenance Fund.

(A) There shall be established and maintained an Operation and Maintenance Fund. The Operation and Maintenance Fund is intended to provide for the payment of the Operation and Maintenance Expenses.

(B) Withdrawals from the Operation and Maintenance Fund shall be made by or on the order of the District Representative in accordance, as nearly as may be practicable, with the Annual Budget then in effect.

Section 8.06 The Depreciation and Contingent Fund.

(A) There shall be established and maintained a Depreciation and Contingent Fund. This Fund shall be maintained in an amount to be established not less frequently than annually by the District on the advice of Feasibility Consultants in order to provide a reasonable reserve for depreciation of the System, for contingencies and for improvements, betterments and extensions of the System.

(B) Money in this fund shall be used solely:

- (1) For the purpose of restoring depreciated or obsolete items of the System;
- (2) For improvements, betterments and extensions to the System, other than for those things which are reasonably necessary to maintain the System in good repair and working order;
- (3) To defray the cost of unforeseen contingencies and extraordinary repairs;
- (4) To prevent defaults of Bonds and Junior Lien Bonds; and
- (5) For optional redemption of Bonds or Junior Lien Bonds.

(C) Withdrawals from this Fund shall be made by or on order of the District.

Section 8.07 Rate Stabilization Funds.

The Commission may by resolution, from time to time, establish a Rate Stabilization Fund.

Section 8.08 Investments of Funds.

Whenever, in the opinion of the District, it becomes desirable to invest money in any of the funds established by this Article (other than the Debt Service Reserve Funds and the Debt Service Funds, for which provisions are made above) the District may make Authorized Investments. In the event the District directs the Trustee to so invest, the Trustee shall act in compliance with such directions. Earnings resulting from the investment of money in a particular fund shall be deposited into the General Revenue Fund (i) except as provided in Sections 8.03 and 8.04 hereof and (ii) unless the District shall have determined pursuant to the Annual Budget that any such earnings on amounts in the Depreciation and Contingent Fund shall remain therein.

[End of Article VIII]

ARTICLE IX DISPOSITION OF REVENUES

Section 9.01 Deposits to General Revenue Fund; Dispositions Therefrom.

The Gross Revenues of the System, excluding that money the disposition of which is controlled by other provisions of the Bond Resolution, are declared to be a part of the General Revenue Fund and shall be, as received, deposited into the General Revenue Fund. The dispositions from the General Revenue Fund required by the remaining Sections of this Article shall be made on or before the tenth (10th) Business Day of each month following the delivery of the first Series of Bonds issued pursuant to this Bond Resolution and in the order of priority established by the sequence of the remaining Sections of this Article.

Section 9.02 Payments for Bonds.

Provision shall be made for the payment of the principal of and interest on all Bonds then Outstanding, including any periodic payments required pursuant to any Related Financial Transaction, all without priority of any Bonds over others but ratably as to each Series of Bonds. To that end:

(1) There shall be deposited into the respective Debt Service Funds the monthly fraction of the aggregate amount of interest to become due on the respective Series of Bonds on the next ensuing interest payment date. Provided, however, that if provision has been made for the payment of all or part of the next installment of interest to become due on any particular Series of Bonds, pursuant to any other provision of this Bond Resolution, or any Series Resolution, or by reason of investment earnings, then, in such event, the deposits required by this paragraph may be omitted, or reduced accordingly.

(2) There shall be deposited into the respective Debt Service Funds the monthly fraction of the aggregate amount of principal of the respective Series of Bonds becoming due and payable on the next ensuing principal maturity date (whether at stated maturity or by sinking fund installments), so that on each principal maturity date, the amount of principal to be paid shall have been accumulated and be on hand. Provided, however, that if provision has been made for the payment of all or part of the next installment of principal to become due on a Series of Bonds, pursuant to any other provision of this Bond Resolution, or any Series Resolution, or by reason of investment earnings, then, in such event, the deposits required by this paragraph may be omitted, or reduced accordingly.

(3) If, on the occasion when the deposits required by paragraphs (1) and (2) of this Section are to be made, the sum total of the deposits required thereby plus previous monthly deposits and the remaining deposits to be made prior to the next succeeding principal and interest payment dates, will be less than the sum required to effect the payment of the next succeeding installment of either principal or interest, or both, as the case may be, a sum equal to such deficiency shall be added to the deposits so to be made.

Section 9.03 Deposits for the Debt Service Reserve Funds - Valuation.

Deposits shall next be made in the amounts required by this Section 9.03 into any Debt Service Reserve Fund. The Trustee shall calculate the Value (as defined below) of the cash and securities in each Debt Service Reserve Fund as of each June 30 and December 31, such calculation to be completed within forty-five (45) days after such date, and as of the date of

delivery of each Series of Bonds on or prior to such date, and as of any other date determined by the District's District Representative (not to exceed two (2) additional optional calculation dates in any twelve (12) month period), in order to determine if the Debt Service Reserve Fund contains the Reserve Requirement therefor, and the extent to which payments therefor or withdrawals therefrom must be made, and the timing thereof, pursuant to this Bond Resolution and the respective Series Resolutions. Unless a Debt Service Reserve Fund then contains in cash and securities (or a surety bond, insurance policy, line of credit or letter of credit as provided in Section 8.04 hereof) an amount at least equal to its Reserve Requirement, there shall be paid into such Debt Service Reserve Fund on the tenth (10th) Business Day of each of the eleven (11) months following a determination of a deficiency in such Debt Service Reserve Fund one-eleventh (1/11) of the amount necessary to re-establish in such Debt Service Reserve Fund its Reserve Requirement; provided, however, nothing herein shall preclude the District from fully re-establishing such Reserve Requirement in a more timely fashion than as so prescribed. Any surety bond, line of credit, insurance policy or letter of credit being used to meet the Reserve Requirement of a Debt Service Reserve Fund shall be valued at the amount still remaining to be drawn thereon; and in the event that any such surety bond, line of credit, insurance policy or letter of credit has been drawn upon, the amount necessary to restore the principal balance thereof shall be paid by the District in the same manner and on a parity with the payments described in this Section 9.03.

For purpose of this Section and Section 8.04, "Value" shall mean, with respect to any investment, the value calculated as follows:

(i) as to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, then in *The New York Times*): the average of the bid and asked prices for such investments so published on or most recently prior to the time of determination;

(ii) as to investments the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*: the average bid price at the time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

(iii) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(iv) as to any investment not specified above: the value thereof established by prior agreement between the District and the Trustee and, with respect to any insured Series of Bonds, the Insurer.

Section 9.04 Reimbursement of Interest on Amounts Advanced for Debt Service Reserve Fund.

Provision shall be made for payment of interest on amounts advanced by the provider of any surety bond, line of credit, insurance policy or letter of credit as contemplated in Section 8.04(D) hereof.

Section 9.05 Deposits for Operation and Maintenance Fund.

There shall next be transferred to the Operation and Maintenance Fund, either from the General Revenue Fund or from the Rate Stabilization Fund as described in Section 9.08 hereof, the amount budgeted for Operation and Maintenance Expenses for the ensuing month less the amount of Operation and Maintenance Expenses for said month to be defrayed from *ad valorem* taxes levied and collected therefor.

Section 9.06 Payments for Junior Lien Bonds.

Provision shall then be made for the payment of any other indebtedness which is junior and subordinate to the Bonds in the order of priority contemplated by the proceedings authorizing their issuance.

Section 9.07 Deposits for the Depreciation and Contingent Fund.

There shall be deposited into the Depreciation and Contingent Fund that sum which is one-twelfth (1/12) of the sum which has been currently determined by the District to be the estimated requirements therefor for the then current Fiscal Year.

Section 9.08 Use of Surplus Money.

All money remaining after making the payments required by Sections 9.01 to 9.07 hereof, shall be used as determined from time to time by the District, for the maintenance or improvement, or payment of debt payable from the revenues, of the System or for the payment of Special Facilities Bonds, or for the payment of General Obligation Bonds or for payment into a Rate Stabilization Fund, or for any other lawful purpose of the District. The District may determine by resolution of the Commission at any time to deposit any percentage or any set amount of surplus money to the extent that it is realized, into a Rate Stabilization Fund; provided, however, that the amount on deposit in a Rate Stabilization Fund shall not exceed the amount budgeted for the Operation and Maintenance Fund for the then current Fiscal Year. Amounts on deposit in a Rate Stabilization Fund may, at the direction of the District's District Representative be used to make the deposits into the Operation and Maintenance Fund required by Section 9.05 hereof. Amounts on deposit in a Rate Stabilization Fund may, at the option of the Commission, be withdrawn and used for any other lawful purpose of the District, but in such event, such withdrawals for purposes other than Operation and Maintenance Expenses shall not be included in Net Earnings.

[End of Article IX]

**ARTICLE X
AGREEMENT TO FURNISH
INFORMATION WITH RESPECT TO SYSTEM**

Section 10.01 Keeping Records.

The District recognizes that those who may from time to time hereafter be Bondholders will, throughout the life of the Bonds, require full information with respect to the System, the fiscal affairs of the System, and all matters incident to each. To that end the District hereby covenants and agrees that it will install and thereafter at all times maintain proper books of records and accounts, separate and distinct from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the System, and all revenues and receipts derived therefrom, directly or indirectly. Such books and records shall be kept in such fashion as to reveal in detail:

- (A) The number of customers who may from time to time make use of the System;
- (B) The Gross Revenues of the System and the source from whence derived;
- (C) All expenses incurred in the operation of the System suitably identified as to purpose;
- (D) The Net Earnings of the System;
- (E) All expenditures made from the several funds established by this Bond Resolution, and Series Resolutions authorizing the issuance of the Bonds; and
- (F) The rate schedules that may from time to time be in force.

Section 10.02 Audit Required.

The District further covenants and agrees that so long as any Bonds are Outstanding, it will, not later than one hundred and fifty (150) days after the close of each Fiscal Year, cause to be made and completed by the Accountants, an audit of the records, books and accounts pertaining to the System, made in accordance with recognized accounting practices, showing, among other things, Gross Revenues and Net Earnings; and that it will furnish a copy of such audit to the Trustee. Such audit shall comment upon any violation of any provision of any resolution authorizing the issuance of any Bonds or Junior Lien Bonds and any violation of any provision of this Bond Resolution noted by the auditing accountants, and such other matters as to them seem pertinent. The cost of such audit shall be treated as an Operation and Maintenance Expense of the System. Any copies so furnished need not be certified.

[End of Article X]

ARTICLE XI INSURANCE

Section 11.01 Requirement of Insurance.

The District covenants and agrees that so long as any Bonds are Outstanding:

(A) That it will insure and at all times keep the System insured against physical loss or damage with a responsible insurance company or companies, authorized and qualified under the laws of the State of South Carolina, to assume the risks insured against, in such amount as private corporations engaged in similar endeavors would customarily insure for;

(B) That it will secure adequate fidelity bonds (blanket or individual) of a surety company doing business in the State, indemnifying the District against defalcation of all persons handling money derived from the System or signing checks on any bank accounts relating to the System, other than the Trustee or any Registrar;

(C) That all premiums on all bonds or insurance policies shall be deemed a part of the cost of operating and maintaining the System;

(D) That all insurance policies shall be open to the inspection of any Bondholder at any reasonable time;

(E) That all money received by the District as a consequence of any defalcation, covered by any fidelity bond, shall be used to restore the fund depleted by the defalcation. All sums received by the District from insurance policies covering the System may, to the extent necessary, be applied to the repair and replacement of the damaged or destroyed property, but, in the event that such money is not used for such purposes, then the same shall be deposited in the Depreciation and Contingent Fund; and

(F) That it will comply with the requirements of State law regarding the mandatory purchase of liability insurance contained in Section 15-78-140(b) of the South Carolina Code of Laws of 1976, as amended and as the same shall from time to time be amended.

[End of Article XI]

**ARTICLE XII
ADDITIONAL COVENANTS**

Section 12.01 Additional Covenants to Secure Bonds.

The District further covenants and agrees:

(A) That neither the System, nor any part thereof, nor any of the revenues derived from the System, have been or will be hypothecated, mortgaged, otherwise pledged or encumbered, save and except in accordance with the provisions hereof;

(B) That it will permit no free service to be rendered, or use to be made of the services and facilities of the System, and for the services and facilities of the System used by the District, the reasonable cost and value of such services and facilities shall be paid as such services accrue. The revenue so received from the District shall be deemed revenue derived from the operation of the System, and shall be accounted for in the same manner as other revenues of the System;

(C) That, to the extent lawful, it will not permit competing systems to operate within its boundaries;

(D) That it will permit no sewer customer to be connected to the System, or to receive any service afforded by the System, unless a proper account is established and charges are levied against such account for services rendered, and such customer shall become obligated to pay for the service rendered at the appropriate rate according to the rate schedule then in force;

(E) That so long as there are any Bonds Outstanding and unpaid, it will perform all duties with reference to the System required by the Constitution and statutes of the State;

(F) That it will not sell, lease or dispose of any portion of the System, necessary or useful (as determined by the Feasibility Consultants; provided, however, if the fair market value of any such portion does not exceed \$500,000, such determination may be made by the District) in the operation of the System, until all Bonds shall be paid in full, or unless and until provision shall have been made for the payment of all Bonds and the interest thereon in full, and the District further obligates itself and covenants and agrees with the Bondholders to maintain in good condition and to operate said System, and to collect and charge such rates for the services and facilities of the System so that the income and revenues of the System will be sufficient at all times to meet the requirements of this Bond Resolution. If, pursuant to this Section, anything belonging to the System which is not deemed by the District to be necessary or useful therefor shall be sold or disposed of, the proceeds of such sale or disposition shall be deposited in the Depreciation and Contingent Fund;

(G) That it will permit, so long as there are any Bonds Outstanding, any Bondholder to inspect the System and all records and accounts thereof under reasonable terms and conditions and after reasonable notice has been given;

(H) That it will not make any use, and it shall direct the Trustee and each Fiduciary not to make any use, of the proceeds of any Series of Bonds which Bonds were intended upon the issuance thereof to be exempt from federal income taxation, which, if such use had been reasonably expected on the date of the issuance of the Bonds of such Series, would have caused

such Bonds or any other Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and will observe and not violate the requirements of Section 148 of the Code;

(I) That, as to any Series of Bonds that was intended at the time of its issuance to be exempt from federal income taxation, it will take all actions required of it under the Code that are necessary to preserve the tax-exempt status of such Series of Bonds, including without limitation, actions necessary to comply with all information reporting requirements and any obligation to rebate arbitrage earnings on the proceeds of such Bonds to the United States Government; and

(J) That it will make all payments or deposits required under Articles VIII and IX of this Bond Resolution in a timely manner.

[End of Article XII]

ARTICLE XIII MODIFICATION OF RESOLUTION

Section 13.01 Modification Without Bondholder Approval.

(A) Provided always that the security of the Bonds shall not be lessened, or in any manner impaired, the District may for any one or more of the following purposes at any time, or from time to time, adopt a resolution, supplementing this Bond Resolution, which supplemental resolution shall be fully effective in accordance with its terms:

(1) To provide for the issuance of a Series of Bonds in accordance with Article IV of this Bond Resolution;

(2) To add to the covenants and agreements of the District in this Bond Resolution, other covenants and agreements thereafter to be observed;

(3) To surrender any right, power or privilege reserved to or conferred upon the District by this Bond Resolution; and

(4) To cure, correct and remove any ambiguity or inconsistent provisions contained in this Bond Resolution.

(B) It is further provided that such supplemental resolution shall not become effective until (1) a copy thereof, duly certified, shall have been filed in the office of the Clerk of Court for Spartanburg County and (2) the District shall have received an opinion of Bond Counsel to the effect that such supplemental resolution has been lawfully adopted in accordance with the provisions hereof and is in full force and effect. The Trustee will promptly give notice of adoption and a copy of any modification made hereunder to any Insurer.

Section 13.02 Modification with Bondholder Approval.

The rights and duties of the District and the Bondholders and the terms and provisions of this Bond Resolution may be modified or altered in any respect by a resolution adopted by the District with the consent of the Holders or any Insurers deemed Holders pursuant to Section 18.01 hereof of a majority in aggregate principal amount of all Bonds of each Series which would be affected by such modification or alteration then Outstanding, such consent to be evidenced by an instrument or instruments executed by such Holders or any Insurers deemed Holders pursuant to Section 18.01 hereof and duly acknowledged or proved before a notary public or other public officer authorized to take oaths, but no such modification or alteration shall, without the consent of the Holders of all Bonds affected by such change or modification:

(A) Extend the maturity of any payment of principal or interest due upon any Bond;

(B) Effect a reduction in the amount which the District is required to pay by way of principal, interest or redemption premium on any Bond;

(C) Effect a change as to the type of currency in which the District is obligated to effect payment of the principal, interest and redemption premium of any Bond;

(D) Permit the creation of a pledge of or lien upon the revenues of the System prior to or equal to the Bonds except as may be permitted under the provisions of this Bond Resolution;

- (E) Permit preference or priority of any Bonds to others; or
- (F) Reduce the percentage required for the written consent to the modification or alteration of the provisions of this Bond Resolution.

Section 13.03 Procedure for Procuring Bondholder Approval.

The District and the Trustee may rely upon the registry books maintained by the Registrar to determine who are the Holders of the Bonds. Any and all modifications made pursuant to Section 13.02 shall not become effective until (1) there has been filed with the Clerk of Court for Spartanburg County and with the Trustee a copy of such amendatory resolution hereinabove provided for, duly certified, and (2) proof of consent to such modification by the Holders of the requisite principal amount of the Bonds then Outstanding shall be filed with the Trustee. In the event that any Series of Bonds are held under a book-entry system pursuant to Section 4.21, the approvals of Bondholders may be obtained in the manner provided in the agreement with the Securities Depository.

Section 13.04 Notice to Rating Agencies and Bond Insurers.

Any rating agency rating a Series of Bonds and any Insurer insuring a Series of Bonds shall be provided notice and a copy of any amendment to this Bond Resolution or to any Series Resolution at least fifteen (15) days in advance of its execution or adoption.

[End of Article XIII]

ARTICLE XIV EVENTS OF DEFAULT

Section 14.01 Events of Default.

(A) Each of the following events is hereby declared to be an "Event of Default":

(1) Payment of the principal of any of the Bonds shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption;

(2) Payment of any installment of interest on any Bonds shall not be made when the same becomes due and payable;

(3) Payment of any installment of either interest or principal on any Junior Lien Bonds shall not be made when the same becomes due and payable;

(4) The District shall for any reason be rendered incapable of fulfilling its obligations hereunder;

(5) An order or decree shall be entered with the consent or acquiescence of the District appointing a receiver, or receivers, of the System, or of the revenues thereof, or any proceedings shall be instituted with the consent or acquiescence of the District for the purpose of effecting a composition between the District and its creditors whose claims relate to the System, or for the purpose of adjusting claims of such creditors, pursuant to any federal or State statute now or hereafter enacted, or if such order or decree, having been entered without the consent or acquiescence of the District, shall not be vacated or discharged or stayed on appeal within sixty (60) days after entry thereof, or if such proceeding having been instituted without the consent or acquiescence of the District, shall not be withdrawn or any orders entered shall not be vacated, discharged, or stayed on appeal within sixty (60) days after the institution of such proceedings, or the entry of such orders;

(6) The District shall fail to operate the System in an efficient and businesslike fashion so as to materially impair the operations of the System or shall default in the due and punctual performance of any other of the covenants, conditions, agreements or provisions contained in the Bonds or in any Series Resolution or in this Bond Resolution or any proceedings authorizing the issuance of any Junior Lien Bonds, and such default as to efficient operation or otherwise shall continue for thirty (30) days after written notice, specifying such default and requiring the same to be remedied, shall have been given to the District by any Bondholder, provided that in the case of default specified in this paragraph (6), if the default be such that it cannot be corrected within the said thirty (30) day period, it shall not constitute an event of default if corrective action is instituted by the District within said thirty (30) day period and diligently pursued until the default is corrected;

(7) The occurrence of an event of default on the part of the District under any reimbursement agreement between the District and a provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 8.04(D) hereof; and

(8) Such other events of default as may be specified in a Series Resolution. In determining whether a default in payment has occurred under paragraphs (1), (2) or (3) of the preceding subsection (A) and in determining whether a payment on Bonds has been made under any other provision of this Resolution, no effect shall be given to payments made under a Municipal Bond Insurance Policy.

(B) The foregoing provisions of paragraph (6) of the preceding subsection (A) are subject to the following limitations: If by reason of force majeure the District is unable in whole or in part to carry out its agreements herein contained (other than the obligations on the part of the District contained in any of Section 4.02 or Articles VI, VIII and IX as to which this paragraph shall have no application), the District shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein shall mean, without limitation, the following: acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of South Carolina or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, tunnels or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the District, it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the District, and the District shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the District unfavorable to the District.

[End of Article XIV]

ARTICLE XV REMEDIES

Section 15.01 Acceleration; Annulment of Acceleration.

(A) Upon the occurrence of an Event of Default, the Trustee may with the written consent of each Insurer insuring a Series of Bonds, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds Outstanding shall with the written consent of each Insurer insuring a Series of Bonds, declare all Bonds Outstanding immediately due and payable; and such Bonds shall become and be immediately due and payable, anything in the Bonds or in this Bond Resolution to the contrary notwithstanding. Such declaration shall be accomplished by notice in writing to the District and to the Paying Agent. In such event, there shall be due and payable on the Bonds an amount equal to the total principal amount of all such Bonds, plus all interest accrued thereon and which will accrue thereon to the date of payment.

(B) At any time after the principal of the Bonds shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under this Bond Resolution, the Trustee may, with the consent of each Insurer of any Series of Bonds Outstanding, annul such declaration and its consequences with respect to any Bonds not then due by their terms if:

(1) Moneys shall have been deposited in each Debt Service Fund sufficient to pay all matured installments of interest and principal (other than principal then due only because of such declaration) of all Outstanding Bonds;

(2) Moneys shall have been deposited with the Trustee sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee;

(3) All other amounts then payable by the District hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and

(4) Every Event of Default known to the Trustee (other than a default in the payment of the principal of such Bonds then due only because of such declaration) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Section 15.02 Additional Remedies and Enforcement of Remedies.

(A) Upon the occurrence and continuance of any Event of Default, subject to the provisions of Section 18.01 hereof, the Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall proceed forthwith to protect and enforce its rights and the rights of the Bondholders under this Bond Resolution by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(1) Requiring the District to carry out its duties and obligations under the terms of the Bond Resolution and under the Enabling Act;

(2) Suit upon all or any part of the Bonds;

(3) Civil action to require the District to account as if it were the trustee of an express trust for the Holders of Bonds;

(4) Civil action to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of the Bonds; and

(5) Enforcement of any other right of the Bondholders conferred by law or by this Bond Resolution including the right to make application for the appointment of a receiver to administer and operate the System.

(B) Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall institute and maintain such suits and proceedings as it may be advised by counsel shall be necessary or expedient:

(1) To prevent any impairment of the security under this Bond Resolution by any acts which may be unlawful or in violation of this Bond Resolution; or

(2) To preserve or protect the interests of the Bondholders, provided that such request is in accordance with law and the provisions of this Bond Resolution and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Holders of Bonds not making such request.

Section 15.03 Application of Revenues and Other Moneys After Default.

(A) The District covenants that if an Event of Default shall happen and shall not have been remedied, the District, upon demand of the Trustee, shall pay or cause to be paid over to the Trustee:

(1) Forthwith, all moneys and securities then held by the District that are credited to any Fund under this Bond Resolution (specifically including any moneys and securities in any construction fund created with proceeds of Bonds if construction of the projects to be paid for thereby has been completed or terminated but exclusive of any amounts remaining in such construction fund that are in dispute between the District and any contractor); and

(2) As promptly as practicable after receipt thereof, all Gross Revenues.

(B) During the continuance of an Event of Default, the Trustee shall apply all moneys, securities, Gross Revenues, payments and receipts in its possession and the income therefrom as follows and in the following order:

(1) To the payment of the reasonable and proper charges of the Trustee and its reasonable counsel fees and expenses;

(2) To the payment of the interest and principal (and redemption premium, if any) then due on the Bonds (and interest for such purpose shall include payments due under a Related Financial Transaction as provided in subsection (b) Section 4.23 hereof), as follows:

(a) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

(i) First: To the payment of the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference;

(ii) Second: To the payment to the persons entitled thereto of the unpaid Principal Installments (and redemption premiums, if any) of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal (plus redemption premium, if any) due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any differences as to the respective rates of interest specified in the Bonds;

(3) To the payment of the amounts required by Sections 9.03 and 9.04, ratably, according to the amounts due thereon to the persons entitled thereto;

(4) To the payment of all other Operation and Maintenance Expenses;

(5) To the payment of the amounts required by Section 9.07, ratably, according to the amounts due thereon to the persons entitled thereto.

Section 15.04 Remedies Not Exclusive.

No remedy by the terms of this Bond Resolution conferred upon or reserved to the Trustee or the Bondholders or any Insurer is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Bond Resolution or existing at law or in equity or by statute (including the Enabling Act) on or after the date hereof.

Section 15.05 Remedies Vested in Trustee.

All rights of action (including the right to file proof of claims) under this Bond Resolution or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceedings instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Bonds. Subject to the

provisions of Section 15.03 hereof, any recovery of judgment shall be for the equal benefit of the Holders of the Outstanding Bonds.

Section 15.06 Majority of Bondholders Control Proceedings.

If an Event of Default shall have occurred and be continuing, notwithstanding anything in this Bond Resolution to the contrary, the Holders of at least a majority in aggregate principal amount of Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of this Bond Resolution or for the appointment of a receiver or any other proceedings hereunder, provided that such direction is in accordance with law and the provisions of this Bond Resolution (including indemnity to the Trustee) and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Bondholders not joining in such direction and provided further that nothing in this Section 15.06 shall impair the right of the Trustee in its discretion to take any other action under this Bond Resolution which it may deem proper and which is not inconsistent with such direction by Bondholders.

Section 15.07 Individual Bondholder Action Restricted.

(A) No Holder of any Bond shall have any right to institute any suit, action, or proceeding in equity or at law for the enforcement of this Bond Resolution or for the execution of any trust hereunder or for any remedy under this Bond Resolution unless:

- (1) An Event of Default has occurred:
 - (a) under paragraph (1) or (2) of subsection (A) of Section 14.01 hereof;
 - (b) as to which the Trustee has actual notice; or
 - (c) as to which the Trustee has been notified in writing; and

- (2) The Holders of at least twenty-five percent (25%) in aggregate principal amount of Bonds Outstanding shall have made written request to the Trustee to proceed to exercise the powers granted in this Bond Resolution or to institute such action, suit or proceeding in its own name; and

- (3) Such Bondholders shall have offered the Trustee reasonable indemnity; and

- (4) The Trustee shall have failed or refused to exercise the powers herein granted or to institute such action, suit or proceedings in its own name for a period of sixty (60) days after receipt by it of such request and offer of indemnity.

(B) No one or more Holders of Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security of this Bond Resolution or to enforce any right hereunder except in the manner herein provided and for the equal benefit of the Holders of all Bonds Outstanding.

(C) Nothing contained in this Bond Resolution shall affect or impair, or be construed

to affect or impair, the right of the Holder of any Bond:

(1) To receive payment of the principal of or interest on such Bond on the due date thereof; or

(2) To institute suit for the enforcement of any such payment on or after such due date.

Section 15.08 Termination of Proceedings.

In case any proceeding taken by the Trustee or any Bondholder on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, the District, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, and all rights, remedies and powers of the Trustee and the Bondholders shall continue as if no such proceeding had been taken.

Section 15.09 Waiver and Nonwaiver of Event of Default.

(A) No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by this Article XV to the Trustee and the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

(B) The Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Bond Resolution, or before the completion of the enforcement of any other remedy under this Bond Resolution.

(C) Notwithstanding anything contained in this Bond Resolution to the contrary but subject to the provisions of Section 18.01 hereof, the Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Bonds then Outstanding (including, if more than one Series of Bonds shall at the time be Outstanding, the Holders of a majority in principal amount of all Bonds then Outstanding of each such Series), shall waive any Event of Default hereunder and its consequences; provided, however, that except under the circumstances set forth in subsection (B) of Section 15.01 hereof or subsection (B) of this Section 15.09, a default in the payment of the principal of, premium, if any, or interest on, any Bond, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Bonds at the time Outstanding.

(D) In case of any waiver by the Trustee of an Event of Default hereunder, the District, the Trustee, each Insurer and the Bondholders shall be restored to their former positions and rights under the Bond Resolution, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. The Trustee shall not be responsible to anyone for waiving or refraining from waiving any Event of Default in accordance with this Section 15.09.

Section 15.10 Notice of Defaults.

(A) Within thirty (30) days after:

(1) The receipt of notice of an Event of Default as provided in Section 15.07(A)(1)(b) or (c) hereof; or

(2) The occurrence of an Event of Default under paragraphs (1) or (2) of subsection (A) of Section 14.01 hereof, as to which the Trustee shall be deemed to have notice,

the Trustee shall, unless such Event of Default shall have theretofore been cured, give written notice thereof by first class mail to each Insurer of any Series of Bonds then Outstanding and to each Holder of Bonds then Outstanding, provided that, except in the case of a default in the payment of principal of, together with premium, if any, and interest on any of the Bonds, the Trustee may withhold such notice if, in its sole judgment, it determines that the withholding of such notice is in the best interests of the Bondholders.

(B) The Trustee shall immediately notify the District and each Insurer of any Series of Bonds then Outstanding of any Event of Default known to the Trustee.

Section 15.11 Rights of Insurers.

Any Insurer insuring a Series of Bonds shall be subrogated to the rights to payment of the Holders of any Bonds with respect to which it pays any principal or interest on the Bonds owned by that Holder.

[End of Article XV]

ARTICLE XVI
TRUSTEE AND ITS FUNCTIONS; OTHER FIDUCIARIES

Section 16.01 Appointment and Vesting of Powers in Trustee; Limitation of Rights of Bondholders to Appoint Trustee.

Prior to the delivery of any Bonds pursuant to this Bond Resolution, the District shall appoint the Trustee. The Trustee shall be and is hereby vested with all rights and powers necessary to enable it to discharge its duties hereunder, but the right of the Bondholders to appoint a Trustee hereunder is limited to the circumstances contemplated by Section 16.10 hereof.

Section 16.02 Functions of Trustee.

The Trustee shall have the following additional functions:

- (A) To authenticate the Bonds of all Series that may be issued;
- (B) To act as custodian of the Debt Service Funds;
- (C) To act as custodian of the Debt Service Reserve Funds (except for the Debt Service Reserve Fund established for the North Tyger River Interceptor Loan, as defined in Section 1.01 hereof), if any;
- (D) To act as Paying Agent for the Bonds;
- (E) In the event Bonds are issued in registered form, to act as Registrar for the Bonds, and to maintain a set of registration books therefor, which shall at all times accurately reflect the names and addresses of all those who may be Holders of any Bonds;
- (F) To make reports to the District on a monthly or such other basis as may be requested by the District, but not less often than semi-annually:
 - (1) Establishing balances on hand;
 - (2) Listing investments made for any fund handled by the Trustee;
 - (3) Establishing the market value of the Debt Service Reserve Funds; and
 - (4) Listing all securities, if any, pledged pursuant to Section 16.13 hereof.

Section 16.03 Duty of Trustee with Respect to Deficits in Debt Service Funds.

It shall be the further duty of the Trustee to give written notice to the District three (3) Business Days prior to each Bond Payment Date, if there is any deficiency in any Debt Service Fund which would result in a need for further moneys to meet the payment of interest and/or principal falling due on the next ensuing Bond Payment Date, and the extent, if any, to which resort must be had to the respective Debt Service Reserve Fund to meet such deficiency.

Section 16.04 Acceptance by Trustee Required.

Prior to the delivery of any Bonds, the Trustee appointed pursuant to Section 16.01 hereof shall signify its acceptance of the powers, duties and obligations conferred and imposed

upon it by this Bond Resolution, by executing and delivering to the District a written acceptance thereof.

Section 16.05 Liability as to Recitals in Bond Resolution and Bonds; Other Rights of Trustee.

(A) Prior to the occurrence of an Event of Default of which the Trustee has or is deemed to have notice hereunder, and after the curing of any Event of Default which may have occurred:

(1) the Trustee shall undertake to perform such duties and only such duties as are specifically set forth in this Bond Resolution, and no implied covenants or obligations shall be read into this Bond Resolution against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Bond Resolution; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee is under a duty to examine same to determine whether or not they conform to the requirements of this Bond Resolution.

(B) In case an Event of Default of which the Trustee has or is deemed to have notice hereunder has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Bond Resolution, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use in the conduct of such persons own affairs.

(C) The Trustee is not liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Bondholders under any provision of this Bond Resolution relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Bond Resolution.

(D) No provision of this Bond Resolution shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it has reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(E) Whenever in the administration of this Bond Resolution the Trustee deems it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence thereof is specifically prescribed) may, in the absence of bad faith on its part, rely upon a certificate of the Chairman of the Commission.

(F) The Trustee may consult with legal counsel and the written advice of such legal counsel or an opinion of legal counsel shall be full and complete authorization and protection for any action taken, suffered or omitted by it in good faith and in accordance with such advice or opinion.

(G) The Trustee is under no obligation to exercise any of the rights or powers vested in it by this Bond Resolution at the request or direction of any of the Bondholders unless such

Holders have offered to the Trustee security or indemnity satisfactory to the Trustee as to its terms, coverage, duration, amount and otherwise with respect to the costs, expenses and liabilities which may be incurred by it in compliance with such request or direction, and the provision of such indemnity shall be mandatory for any remedy taken upon direction of the Holders of twenty-five percent (25%) in aggregate principal amount of the Bonds.

(H) The Trustee is not required to make any inquiry or investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit and, if the Trustee determines to make such further inquiry or investigation, it is entitled to examine the books, records and premises of the District, in person or by agent or attorney.

(I) The Trustee may execute any of its trusts or powers or perform any duties under this Bond Resolution either directly or by or through agents or attorneys, and may in all cases pay, subject to reimbursement from the District, such reasonable compensation as it deems proper to all such agents and attorneys reasonably employed or retained by it, and the Trustee shall not be responsible for any misconduct or negligence of any agent or attorney appointed with due care by it.

(J) The Trustee is not required to give any bond or surety with respect to the performance of its duties or the exercise of its powers under this Bond Resolution.

(K) The Trustee's immunities and protections from liability and its right to indemnification in connection with the performance of its duties under this Bond Resolution shall extend to the Trustee's officers, directors, agents, attorneys and employees. Such immunities and protections and right to indemnification, together with the Trustee's right to compensation, shall survive the Trustee's resignation or removal, the discharge of this Bond Resolution and final payment of the Bonds.

(L) The permissive right of the Trustee to take the actions permitted by this Bond Resolution shall not be construed as an obligation or duty to do so.

(M) Except for information provided by the Trustee concerning the Trustee, the Trustee shall have no responsibility for any information in any offering memorandum or other disclosure material distributed with respect to the Bonds, and the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds.

(N) The Trustee, in its commercial banking or in any other capacity, may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Bondholder may be entitled to take with like effect as if it were not Trustee. The Trustee, in its commercial banking or in any other capacity, may also engage in or be interested in any financial or other transaction with an Insurer or the District and may act as depository, trustee or agent for any committee of Bondholders secured hereby or other obligations of the District as freely as if it were not Trustee. The provisions of this Section shall extend to affiliates of the Trustee.

(O) Whether or not expressly so provided, every provision of this Bond Resolution relating to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of this Section.

Section 16.06 Liability as to Recitals in Bond Resolution and Bonds.

The recitals of fact made in this Bond Resolution and in the Bonds shall be taken as statements of the District, and the Trustee shall not be deemed to have made any representation as to the correctness of the same, nor shall the Trustee be deemed to have made any representation whatsoever as to the validity or sufficiency of this Bond Resolution or of the Bonds issued hereunder except with respect to the authentication of any Bonds. Nor shall the Trustee be under responsibility or duty with respect to the issuance of said Bonds, or the application of the proceeds thereof, except to the extent provided for herein. Nor shall the Trustee be liable in connection with the performance of its duties hereunder, except for its own negligence or default.

Section 16.07 Trustee May Rely on Notices, etc.

The Trustee shall at all times be protected in acting upon any notice, resolution, request, consent, order, certificate, statement, opinion, bond, or other paper or document believed to be genuine and to have been signed by the proper party or parties.

Section 16.08 Trustee Permitted to Resign.

The Trustee may at any time resign and be discharged of its duties and obligations hereunder by giving to the District and the Bondholders and any Insurer written notice of such resignation, specifying a date (not less than sixty (60) days after such notice) when such resignation is intended to take effect. Such resignation shall take effect immediately upon, but not before, the appointment and qualification of such successor.

Section 16.09 Removal of Trustee.

(A) The Trustee may be removed at any time by the Holders of not less than fifty percent (50%) of the principal amount of Bonds at such time Outstanding.

(B) The Trustee may likewise be removed at any time by the District with the consent and approval of the Holders of not less than fifty percent (50%) of the principal amount of the Bonds at such time Outstanding.

(C) Any such removal shall take effect immediately upon, but not before, the appointment and qualification of such successor.

Section 16.10 Appointment of Successor Trustee Upon Resignation or Removal of Trustee.

(A) In case at any time the Trustee shall resign, or be removed or become incapable of acting, or be adjudged a bankrupt or insolvent, or a receiver of its property shall be appointed, or any public officer shall take charge or control of its property or affairs, a successor thereto shall be promptly appointed by a resolution of the District duly adopted. Such successor shall in all instances be a bank or a trust company, acceptable to each Insurer and duly chartered pursuant to the laws of the United States or of any state and shall have a combined capital and surplus of not less than \$100,000,000.

(B) Immediately following such appointment the District shall give written notice of such appointment to the Bondholders and any Registrar other than the Trustee.

Section 16.11 When Bondholder May Seek Successor Trustee.

If, in a proper case, no appointment of a successor Trustee shall be promptly made pursuant to Section 16.09, any Bondholder, the resigning or removed Trustee or any Insurer may make application to any court of competent jurisdiction for the appointment of a successor and said court may thereupon, after such notice, if any, as such court may prescribe, appoint a successor.

Section 16.12 Acceptance by Successor Trustee.

Any successor Trustee appointed hereunder shall execute and deliver to its predecessor and to the District a written acceptance of such appointment, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of its predecessor hereunder with like effect as if originally named as such Trustee and its predecessor shall be obligated to pay over, transfer, assign and deliver all moneys, securities and other property held by it to its successor, and on the written request of the District, or the successor, shall execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may be reasonably required for the vesting and confirming in such successor all the right, title and interest of the predecessor in and to any property held by it.

Section 16.13 Effect of Trustee Merging With Another Bank.

Any bank or trust company into which the Trustee may be merged, or with which it may be consolidated, or any bank or trust company resulting from any merger or consolidation to which it shall be a party, or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its business, shall become the successor without the execution or filing of any paper or the performance of any further act; provided, always, that if the District shall be dissatisfied with the institution resulting from the merger, consolidation or other action spoken of above, then the District may at any time within one hundred eighty (180) days after such action name a new Trustee (with the qualifications prescribed by Section 16.09 hereof) in lieu of the Trustee then acting.

Section 16.14 Trustee to Secure Funds and Securities Held in Trust.

(A) Unless the same be secured as trust funds in the manner provided by the regulations of the Comptroller of the Currency as from time to time in effect, all funds or securities in the custody of the Trustee, in excess of the amount of such deposit insured by the Federal Deposit Insurance Corporation, shall be secured and kept secured by direct obligations of the United States of a market value at least equal to the sum on deposit and not insured as aforesaid by the Federal Deposit Insurance Corporation.

(B) All securities which shall be given to secure any fund as required by the provisions of this Article, shall be placed in the custody of a duly chartered bank, other than the Trustee, which is a member of the Federal Deposit Insurance Corporation. Such other bank shall have a combined capital and surplus of not less than \$25 million.

Section 16.15 Disposition of Paid Bonds.

It shall be the duty of the Trustee to cancel all Bonds which shall have been paid, whether upon their maturity or redemption prior to maturity; such cancellation shall be done in such fashion as to render such Bonds incapable of further negotiation or hypothecation. In any event it shall furnish appropriate certificates to the District indicating the disposition of such Bonds.

Upon effecting such cancellation, the Trustee shall furnish appropriate certificates to the District setting forth the disposition made of the Bonds so cancelled.

Section 16.16 Appointment of Substitute Registrar.

The District may, from time to time, appoint a Registrar or Registrars to act in the place and stead of the Trustee as Registrar of the Bonds of one or more Series. The District shall cause written notice of such appointment to be mailed to the Holders of all Bonds affected by such appointment thirty (30) days prior to the effective date of such appointment.

Section 16.17 Trustee Not to Consider Insurance.

Notwithstanding any other provision of this Resolution, in determining whether the rights of the Bondholders will be adversely affected by any action taken pursuant to the terms and provisions of this Resolution, the Trustee shall consider the effect on the Bondholders as if there were no Municipal Bond Insurance Policy.

[End of Article XVI]

ARTICLE XVII DEFEASANCE

Section 17.01 Defeasance Generally.

Subject to the provisions of any Series Resolution, if all of the Bonds issued pursuant to this Bond Resolution and any other amounts required to be paid to a provider of a surety bond, line of credit, insurance policy or letter of credit hereunder shall have been paid and discharged, then the obligations of the District under this Bond Resolution, the pledge of Gross Revenues made hereby, and all other rights granted hereby shall cease and determine. Subject to the provisions of any Series Resolution, Bonds shall be deemed to have been paid and discharged within the meaning of this Article under each of the following circumstances:

(A) The Trustee shall hold, at the stated maturities of such Bonds, in trust and irrevocably appropriated thereto, sufficient money for the payment thereof.

(B) If default in the payment of the principal of such Bonds or the interest thereon shall have occurred and thereafter tender of such payment shall have been made, and the Trustee shall then hold in trust and irrevocably appropriated thereto, sufficient money for the payment thereof to the date of the tender of such payment.

(C) If the District shall have deposited with the Trustee, or any other bank which would otherwise meet the chartering and capital and surplus requirements contained in Section 16.09(A) hereof, in an irrevocable trust money or Defeasance Obligations, the principal of and interest on which when due (without reinvestment thereof) will, as certified in a verification report provided by an independent nationally recognized certified public accountant, provide money which, together with the money, if any, deposited at the same time, shall be sufficient to pay, when due, the principal, interest and redemption premium, if any, due and to become due on and prior to the maturity, or, if the District has irrevocably elected to redeem Bonds, on and prior to the redemption date, of such Bonds.

Section 17.02 Money to be Held in Trust - When Returnable to the District.

Any money which at any time shall be deposited with the Trustee or other escrow holder authorized under Section 17.01(C), by or on behalf of the District, for the purpose of paying and discharging any Bonds or the interest thereon, shall be and is hereby assigned, transferred and set over to the Trustee or such other escrow holder in trust for the respective Holders of the Bonds, and such money shall be and is hereby irrevocably appropriated to the payment and discharge thereof. But if, through lapse of time or otherwise, the Holders of said Bonds shall no longer be entitled to enforce payment of their obligations, then, in such event, it shall be the duty of the Trustee or such other escrow holder to forthwith return said funds to the District.

Section 17.03 Deposits With Trustee Subject to Conditions of Article XVII.

The District covenants and agrees that any money which it shall deposit with the Trustee shall be deemed to be deposited in accordance with, and subject to, the applicable provisions of this Article, and that whenever it shall have elected to redeem Bonds it will irrevocably bind and obligate itself to give notice of redemption thereof, and will further authorize and empower the Trustee to cause the publication of such notice of redemption in its name and on its behalf.

Section 17.04 No Defeasance of Series of Bonds Paid by Insurer.

In the event that the principal and/or interest due on a Series of Bonds shall be paid by an Insurer pursuant to a Municipal Bond Insurance Policy, such Series of Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District until the Insurer has been reimbursed in full therefor in accordance with the terms of the Municipal Bond Insurance Policy, and the assignment and pledge of the Gross Revenues of the System and all covenants, agreements and other obligations of the District to the registered Holders shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such registered Holders.

[End of Article XVII]

ARTICLE XVIII MISCELLANEOUS

Section 18.01 Miscellaneous Insurer Rights.

(A) Notwithstanding any provision of this Bond Resolution to the contrary, each Insurer shall be deemed the exclusive Holder of all Bonds insured by that Insurer, for the purposes of all approvals, consents, waivers, institution of any action, and the direction of all remedies; provided, however, that for those matters which require the consent of each affected Bondholder specified in Section 13.02, subparts (A) through (F), of this Bond Resolution, the consent of such Bondholders and of the Insurer of such Bonds, if any, shall be required. No rights granted to an Insurer by this Paragraph 18.01(A) shall be effective at any time that (i) such Insurer is in breach of its obligations under the Municipal Bond Insurance Policy, (ii) the Insurer's Municipal Bond Insurance Policy does not confer on the insured Bonds one of the two highest ratings of each of Moody's and S&P ; or (iii) the Insurer is in bankruptcy or receivership proceedings.

(B) Any provision of this Bond Resolution expressly recognizing or granting rights in or to Insurers may not be amended in any manner which affects the rights of such Insurers hereunder without the prior written consent of each such Insurer.

(C) To the extent that an Insurer makes payment of the principal of or interest on any Bonds, it shall become the owner and Holder of such Bonds, appurtenant coupons or right to payment of such principal of or interest on such Bonds and shall be fully subrogated to all of the registered Holders' rights thereunder, including the registered Holders' rights to payment thereof. To evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books of the District maintained by the Trustee or Registrar upon receipt of proof from the Insurer as to payment of interest thereon to the registered Holders of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books of the District maintained by the Trustee or Registrar upon surrender of the Bonds by the registered Holders thereof to the Insurer or its agent.

(D) In the event that the principal of and/or interest on any Bonds shall be paid by the Insurer pursuant to the terms of its Municipal Bond Insurance Policy, (i) such Bonds shall continue to be "Outstanding" under this Bond Resolution and (ii) the assignment and pledge of the Gross Revenues and all covenants, agreements and other obligations of the District to the registered Holders shall continue to exist, and the Insurer shall be fully subrogated to all of the rights of such registered Holders in accordance with the terms and conditions of subparagraph (C) above and the Insurer's Municipal Bond Insurance Policy.

(E) No rights granted to an Insurer by this Bond Resolution except rights of subrogation under Section 15.11 hereof shall be effective at any time that such Insurer is in breach of its obligations under the Municipal Bond Insurance Policy or is subject to bankruptcy or receivership proceedings.

(F) The terms and provisions of this Bond Resolution or of any applicable Series Resolution may not be terminated as long as there are any moneys owed to an Insurer under such terms and provisions of this Bond Resolution or the applicable Series Resolution or any agreement between such Insurer and the District.

Section 18.02 Purpose of Covenants in Bond Resolution.

Every covenant, undertaking and agreement made on behalf of the District, as set forth in this Bond Resolution is made, undertaken and agreed to, for the proper securing of the payment of the principal of and interest on the Bonds. Each shall be deemed to partake of the obligation of the contract between the District and the Bondholders and shall be enforceable accordingly. In this connection, any provider of a surety bond, line of credit, insurance policy or letter of credit as contemplated under Section 8.04(D) hereof may enforce the terms, conditions and obligations under this Bond Resolution as a third party beneficiary hereunder. Nothing in this Bond Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the District, the Insurers, the Trustee, the Paying Agent, if any, and the registered owners of the Bonds, any right, remedy or claim under or by reason of this Bond Resolution or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Bond Resolution contained by and on behalf of the Issuer shall be for the sole and exclusive benefit of the District, the Insurers, the Trustee, the Paying Agent, if any, and the registered owners of the Bonds.

Section 18.03 Effect of Invalidity of Provisions of Bond Resolution.

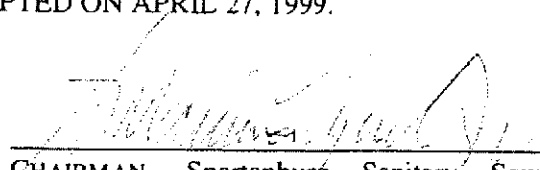
If any Section, paragraph, clause or provision of this Bond Resolution shall be held invalid, the invalidity of such Section, paragraph, clause or provision shall not affect any of the remaining provisions of this Bond Resolution.

Section 18.04 Repealing Clause.

All resolutions, or parts thereof, inconsistent herewith shall be and the same are hereby repealed to the extent of such inconsistencies.

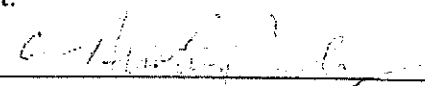
DONE, RATIFIED AND ADOPTED ON APRIL 27, 1999.

(SEAL)



CHAIRMAN, Spartanburg Sanitary Sewer District
Commission, South Carolina

Attest:



SECRETARY, Spartanburg Sanitary
Sewer District Commission, South Carolina

STATE OF SOUTH CAROLINA

COUNTY OF SPARTANBURG


I, the undersigned, Secretary of Spartanburg Sanitary Sewer District, State of South Carolina, DO HEREBY CERTIFY:

That the foregoing constitutes a true, correct and verbatim copy of a Resolution adopted by the Commission. The Resolution was considered and voted upon favorably at a public meeting of the Commission. At that meeting, a quorum of the Commission was present and remained present throughout the meeting.

The Resolution is now in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and the Seal of Spartanburg Sanitary Sewer District, State of South Carolina, this 27th day of April, 1999.

(SEAL)



Secretary, Spartanburg Sanitary Sewer District
Commission, State of South Carolina

A RESOLUTION

AMENDING A RESOLUTION ENTITLED "A RESOLUTION PROVIDING FOR THE ISSUANCE AND SALE OF SEWER SYSTEM REVENUE BONDS AND SEWER SYSTEM CONVERTIBLE BONDS OF SPARTANBURG SANITARY SEWER DISTRICT, STATE OF SOUTH CAROLINA, AND OTHER MATTERS RELATING THERETO", AND AMENDING A RESOLUTION ENTITLED "A RESOLUTION PROVIDING FOR THE ISSUANCE AND SALE OF SEWER SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, SERIES 1999A AND SEWER SYSTEM IMPROVEMENT AND REFUNDING CONVERTIBLE BONDS, SERIES 1999B OF SPARTANBURG SANITARY SEWER DISTRICT, STATE OF SOUTH CAROLINA, AND OTHER MATTERS RELATING THERETO".

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BE IT RESOLVED BY THE SPARTANBURG SANITARY SEWER DISTRICT COMMISSION, IN MEETING DULY ASSEMBLED:

ARTICLE I

FINDINGS OF FACT

As an incident to the adoption of this Resolution, the Spartanburg Sanitary Sewer District Commission (the "Commission"), the governing body of Spartanburg Sanitary Sewer District, State of South Carolina (the "District"), finds that the facts set forth in this Article exist and that the statements made with respect thereto are true and correct.

Section 1.01 Findings of Fact

On April 27, 1999, the Commission adopted a resolution entitled "A Resolution Providing for the Issuance and Sale of Sewer System Revenue Bonds and Sewer System Convertible Bonds of Spartanburg Sanitary Sewer District, State of South Carolina, and Other Matters Relating Thereto" (the "Bond Resolution"), and a resolution entitled "A Resolution Providing for the Issuance and Sale of Sewer System Improvement and Refunding Revenue Bonds, Series 1999A and Sewer System Improvement and Refunding Convertible Bonds, Series 1999B of Spartanburg Sanitary Sewer District, State of South Carolina, and Other Matters Relating Thereto" (the "Series Resolution"). All capitalized terms not defined herein shall have the meanings given such terms in the Bond Resolution or the Series Resolution.

One of the principal purposes of adopting the Bond Resolution was to modify the provisions that govern the issuance of additional Bonds which provisions are set forth in Section 4.02 of the Bond Resolution. Since the adoption of the Bond Resolution, the Commission has determined, based on advices received from Bond Counsel and the Underwriter, that additional clarifying language in Section 4.02(7) is needed.

Further, since the adoption of the Series Resolution, the Commission has been advised that certain clarifications with respect to the parameters provided in Section 4.03 of the Series Resolution which govern the sizing and maturity of the Series 1999 Bonds are needed in order that the Series 1999 Bonds may be sold in accordance with the schedules presented by the Underwriter on the date of the adoption of the Series Resolution, and which were summarized in Exhibit D of the Series Resolution.

ARTICLE II

AMENDMENT OF BOND RESOLUTION

Section 2.01 Amendment to Section 4.02

Paragraph 4.02(7)(D)(ii) is amended to read in its entirety as follows:

(ii) Net Earnings forecasted pursuant to paragraph (A) above in the fifth (5th) Fiscal Year shall be not less than one hundred ten percent (110%) of the amount determined as "x minus y", in each Fiscal Year after the fifth (5th) Fiscal Year in which Bonds Outstanding at the time of issuance of the proposed Series of Bonds (including such proposed Series of Bonds) will remain Outstanding, where "x" equals the Combined Annual Principal and Interest Requirement for each such Fiscal Year on all Bonds Outstanding at the time of issuance (including such proposed Series of Bonds), and "y" equals the lesser of (i) the difference between (a) the amount projected pursuant to the provisions of paragraph (B) to be received by the District from ad valorem property taxes levied for debt service on General Obligation Bonds in such fifth (5th) Fiscal Year and (b) the amount of debt service on General Obligation Bonds (that were General Obligation Bonds at the time of issuance of the proposed new Series of Bonds) that is projected to be paid from ad valorem property tax receipts in such Fiscal Year, provided that in no event shall the amount described in this clause (b) be greater than the amount described in the preceding clause (a), and (ii) the amount of debt service on Bonds Outstanding in each such Fiscal Year that are convertible into General Obligation Bonds in such Fiscal Year for which the calculation is being made.

Section 2.02 Continuing Effect

Except as modified hereby, the Bond Resolution shall remain in full force and effect according to its terms.

ARTICLE III

AMENDMENT OF SERIES RESOLUTION

Section 3.01 Amendment to Section 4.03(e)

The second paragraph of Section 4.03(e) of the Series Resolution is hereby amended to read in its entirety as follows:

The Commission has been advised by the Underwriter on the date of adoption hereof that securities of like term and credit as the Series 1999 Bonds would, if sold on the date hereof, bear and accrete interest at yields approximately equal to those shown on **Exhibit D**. The Commission is further advised that such yields may change between the date hereof and the date on which the Contract of Purchase (as defined below) will be executed and the Series 1999 Bonds sold. The actual principal amount of Current Interest Bonds (not exceeding \$37,000,000, inclusive of any original issue discount determined upon), and the actual aggregate Accreted Values of all Capital Appreciation Bonds (not exceeding \$10,000,000), the actual maturities (beginning not earlier than March 1, 2004 and ending not later than March 1, 2029, and structured to comply with the requirements of Section 4.02(7) of the 1999 Bond Resolution), and the actual interest yields (not to exceed a bond yield of 5.75%, such bond yield to be determined in accordance with Section 148 of the Code, and Treasury Regulations now in effect thereunder), shall be determined in writing by the Chairman and the General Manager of the District in consultation with the Underwriter, at the time of executing the Contract of Purchase. In the event that the Chairman and the General Manager determine, pursuant to advice of the Underwriter, that it is in the best interest of the District to do so, the Series 1999 Bonds that are Current Interest Bonds may be sold at an original issue discount or an original issue premium not to exceed five percent (5%) of the principal amount thereof.

Section 3.02 Continuing Effect

Except as modified hereby, the Series Resolution shall remain in full force and effect according to its terms.

ARTICLE IV

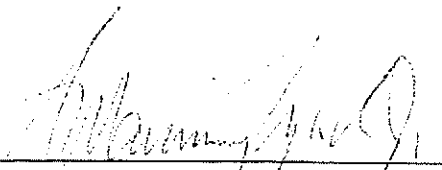
EFFECTIVE DATE

Section 4.01 Effective Date

This Resolution shall become effective immediately.


DONE, RATIFIED AND ADOPTED IN MEETING DULY ASSEMBLED this 25th day of May,
1999.

(SEAL)



Chairman, Spartanburg Sanitary Sewer District
Commission

Attest:



Secretary, Spartanburg Sanitary Sewer District
Commission

STATE OF SOUTH CAROLINA

COUNTY OF SPARTANBURG

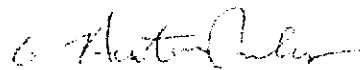
I, the undersigned, Secretary of Spartanburg Sanitary Sewer District Commission, DO
HEREBY CERTIFY:

That the foregoing constitutes a true, correct and verbatim copy of a Resolution duly
adopted by the Commission at a meeting, duly called and held on the 25th day of May, 1999, at
which meeting a quorum of the Commission was present and remained present throughout the
meeting;

The Resolution is now in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my Hand and the Seal of the District, this
25th day of May, 1999.

(SEAL)



Secretary, Spartanburg Sanitary Sewer District
Commission

ARTICLE XII

AMENDMENT TO BOND RESOLUTION

Section 12.01 Amendment to Bond Resolution.

Effective upon the Date of Consent (as defined in this Section 12.01 below), Section 4.02(7)(D)(ii) of the Bond Resolution shall be amended and restated as follows:

(ii) Net Earnings forecasted pursuant to paragraph (A) above in the fifth (5th) Fiscal Year shall be not less than one hundred ten percent (110%) of the amount determined as “x minus y”, in each Fiscal Year after the fifth (5th) Fiscal Year in which Bonds Outstanding at the time of issuance of the proposed Series of Bonds (including such proposed Series of Bonds) will remain Outstanding, where “x” equals the Combined Annual Principal and Interest Requirement for each such Fiscal Year on all Bonds Outstanding at the time of issuance (including such proposed Series of Bonds), and “y” equals the lesser of (i) the difference between (a) the amount projected pursuant to the provisions of paragraph (B) to be received by the District from ad valorem property taxes levied for debt service on General Obligation Bonds in such fifth (5th) Fiscal Year and (b) the amount of debt service on General Obligation Bonds (that were General Obligation Bonds at the time of issuance of the proposed new Series of Bonds) that is projected to be paid from ad valorem property tax receipts in each such Fiscal Year, provided that in no event shall the amount described in this clause (b) be greater than the amount described in the preceding clause (a), and (ii) the amount of debt service on Bonds Outstanding in each such Fiscal Year that are convertible into General Obligation Bonds in such Fiscal Year for which the calculation is being made.

For purposes herein, “Date of Consent” shall mean the date by or upon which (1) MBIA Insurance Corporation, as insurer of the Series 1999A Bonds and the Series 1999B Bonds, and, unless the North Tyger River Interceptor Loan is refunded in full with proceeds of any of the Series 2003 Bonds, the owner of the North Tyger River Interceptor Loan, shall have consented in writing to the above amendment, and (2) the Trustee shall have received an opinion of Bond Counsel that no Bondholder consent is required in connection with such amendment.

[End of Article XII]

ARTICLE XI

AMENDMENT OF BOND RESOLUTION

Section 11.01 Amendment to Section 8.04(E) of the Bond Resolution.

Upon (i) the issuance of the Series 2014 Bonds and the application of the proceeds thereof as described in Section 7.01 hereof, (ii) the District's receipt of the consents of the Holder of the SRF Loan and of the Insurer with respect to the Series 2009A Bonds and Series 2009B Bonds as to the following amendment, and (iii) the delivery to the District and the Trustee of an opinion of Bond Counsel to the effect that such amendment has been lawfully adopted in accordance with the provisions of the Bond Resolution and is in full force and effect, then Section 8.04(E) of the Bond Resolution shall be deemed, as of such time and without further action by the Commission, amended in its entirety to read as follows:

(E) (1) The following provisions shall apply with respect to the District's Series 2009A Bonds, Series 2009B Bonds and Series 2011Bonds:

(a) The company providing such surety bond, line of credit, letter of credit or insurance policy, or, in lieu thereof, the guarantor of such company's obligations under such surety bond, line of credit, letter of credit or insurance policy, shall be a company whose municipal bond insurance policies insuring the payment of the principal of and interest on municipal bond issues, or whose guarantee of such policies, results in such issues being rated (if rated at all) in the second highest general rating category by S&P and Moody's or their respective successors. The letter of credit issuer shall be a bank or trust company which is rated not lower than the second highest rating category by S&P and Moody's or their successors. The insurance policy or surety bond must extend for the life of the Series of Bonds which receive the benefit of the same and must be unconditional and irrevocable. If a letter of credit or line of credit is provided under the provisions of this paragraph, then within sixty (60) days prior to the stated expiration date of any said letter of credit or line of credit which does not extend for the term of the Series of Bonds as to which the same applies, (i) the District shall, after giving written notice to the Trustee, obtain another letter of credit or line of credit, as the case may be; or (ii) the Trustee shall, at the written direction of the District, draw upon the letter of credit or line of credit, as the case may be, in order to fund the applicable Debt Service Reserve Fund with cash; or (iii) the District shall, after giving written notice to the Trustee, fully fund the applicable Debt Service Reserve Fund with cash or Authorized Investments. If a disbursement is made pursuant to a surety bond, a line of credit, an insurance policy or a letter of credit provided pursuant to this paragraph, the District shall be obligated either (a) to reinstate the maximum limits of such surety bond, line of credit, insurance policy or letter of credit, or (b) to deposit into such Debt Service Reserve Fund cash in the amount of the disbursement made under such surety bond, line of credit, insurance policy or letter of credit, or a combination of such alternatives, as shall provide that the amount credited equals the Reserve Requirement on the respective Series of Bonds within a time period not longer than one (1) year. The Trustee shall receive such opinions, including legal opinions, certificates and other documentation, as the Trustee shall request, prior to the delivery of such surety bond, letter of credit, line of credit or insurance policy to the Trustee.

(b) If a surety bond, insurance policy, line of credit or letter of credit on deposit in a Debt Service Reserve Fund shall be terminated (other than on its stated expiration date), may not be drawn upon for any reason, or shall otherwise no longer be in compliance with the provisions of this Section 8.04(E), the District shall either (a)

replace such surety bond, insurance policy, line of credit or letter of credit with a substitute which complies with the provisions of Section 8.04(D), or (b)(i) in the case of any surety bond, insurance policy, line of credit or letter of credit issued in respect of the District's Series 2009A Bonds, Series 2009B Bonds or Series 2011 Bonds, commence making deposits of Gross Revenues to the applicable Debt Service Reserve Fund over a period not longer than twelve (12) months after the date of such termination until the amount on deposit in such Debt Service Fund equals the applicable Reserve Requirement.

(2) With respect to any Series of Bonds issued subsequent to the Series 2014 Bonds, the provisions governing the minimum term and ratings requirements with respect to any surety bond, line of credit, letter of credit or insurance policy as may be issued as a substitute in lieu of the deposit of moneys into the applicable Debt Service Reserve Fund, and the provisions governing the replenishment of the applicable Debt Service Reserve Fund upon any disbursement made pursuant to, or upon any termination of, such surety bond, line of credit, letter of credit or insurance policy, shall be as set forth in the authorizing Series Resolution with respect to such Series of Bonds. The Trustee shall receive such opinions, including legal opinions, certificates and other documentation, as the Trustee shall request, prior to the delivery of any such surety bond, letter of credit, line of credit or insurance policy to the Trustee.

[End of Article XI]

APPENDIX C

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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**SPARTANBURG SANITARY
SEWER DISTRICT**



**SPARTANBURG, SOUTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDING JUNE 30, 2019 AND 2018**

I. INTRODUCTORY SECTION

SPARTANBURG SANITARY SEWER DISTRICT
SPARTANBURG, SOUTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

SUBMITTED BY:
FINANCE DEPARTMENT

SPARTANBURG SANITARY SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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Spartanburg Sanitary Sewer District Officials

List of Commissioners and Senior Management Staff

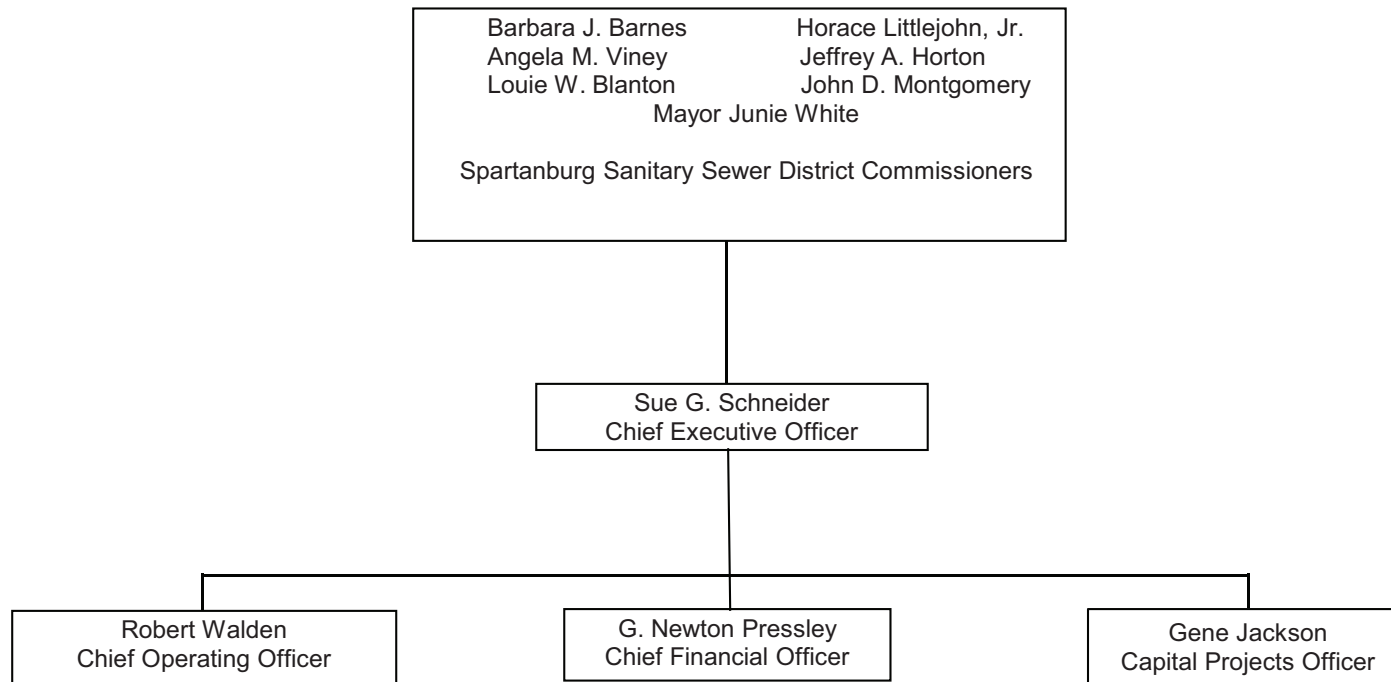
Commissioners

Louie W. Blanton.....	Chairman
Barbara J. Barnes	Commissioner
Jeffrey A. Horton	Commissioner
Horace C. Littlejohn, Jr.....	Commissioner
John D. Montgomery.	Commissioner
Angela M. Viney.....	Commissioner
Mayor Junie White.....	Commissioner

Senior Management Staff

Sue G. Schneider.....	Chief Executive Officer
G. Newton Pressley.....	Chief Financial Officer
Robert Walden	Chief Operating Officer
Gene Jackson	Chief Projects Officer

Spartanburg Sanitary Sewer District Organizational Chart



Horace C. Littlejohn, Jr.
John D. Montgomery
Angela M. Viney

Sue G. Schneider, Chief Executive Officer
G. Newton Pressley, Chief Financial Officer
Robert F. Walden, Chief Operating Officer
Charles E. Jackson, P.E., Capital Projects Officer



Barbara J. Barnes
Louie W. Blanton
Jeffrey A. Horton
Horace C. Littlejohn, Jr.
John D. Montgomery
Angela M. Viney
Junie White

Letter of Transmittal
December 2, 2019

To the Commissioners and Customers
of the Spartanburg Sanitary Sewer District

We are pleased to submit to you the Comprehensive Annual Financial Report ("CAFR") for the Spartanburg Sanitary Sewer District ("the District") for the fiscal year ended June 30, 2019. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The District's management has established a system of internal accounting controls designed to provide reasonable, but not absolute, assurance for the safeguarding of assets and financial statement preparation in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The concept of reasonable assurance recognizes that the cost of internal controls should not exceed the benefits.

The District is required by state law to publish an annual financial report audited by a certified public accountant and this CAFR fulfills that requirement. McAbee, Schwartz, Halliday & Co., Certified Public Accountants, conducted the independent audit of the District's financial statements. The objective was to obtain reasonable assurance that the financial statements are free of material misstatement. The audit was conducted in accordance with U.S. generally accepted auditing standards. McAbee, Schwartz, Halliday & Co. issued an unmodified opinion that the District's financial statements are fairly presented, in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

A Management Discussion and Analysis ("MD&A") is provided in the financial section of this report. The MD&A serves as a narrative introduction, overview and analysis of the District's financial statements. This Letter of Transmittal is intended to compliment the MD&A and should be read in conjunction with it.

PROFILE OF THE DISTRICT

The District is a special purpose district that was originally established by Act No. 556 of 1929 to provide sewer trunkline and treatment services. The General Assembly further empowered the District through Act No. 1503 of 1970 to provide sewage collection services in addition to transportation and treatment services. On January 1, 2008, the District acquired the City of Spartanburg sewer collection system, previously designated as "Subdistrict A." Currently, there is one subdistrict: "Subdistrict B" is comprised of areas north of the City and is responsible for providing sewage collection services to its residents. Since 1970 the District has assumed primary responsibility for providing sewage collection service to other areas of the District.

The District is located in Spartanburg County, which is located in the northwest Piedmont section of South Carolina on the I-85 corridor between Atlanta, Georgia and Charlotte, North Carolina. The current boundaries of the District encompass 137,911 acres (215.49 square miles) and include the municipalities of Spartanburg, Cowpens, Landrum, Pacolet, and Central Pacolet, and portions of three other special purpose districts, which include the Inman-Campobello Water District, the Liberty-Chesnee-Fingerville Water District and the Startex-Jackson-Wellford-Duncan Water District.

The District is governed by a seven member Commission, all of whom are elected from within the boundaries of the District. The Mayor of the City of Spartanburg ("City") and the three members of the Commission of Public Works of the City of Spartanburg ("CPW") serve as ex officio members of the Commission. The remaining three members are elected from the area of the District outside the City limits. These three members serve concurrent four-year terms.

The District presently operates eight regional treatment facilities: Clifton-Converse, Cowpens, Fairforest, Lower North Tyger River, Pacolet Mills, Fingerville, Page Creek (Landrum) and South Tyger River. In addition, the District operates one large transfer station at Lawson Fork and 75 pump stations throughout the service area, and 1,043 miles of pipeline, of which 371 miles was acquired from the City of Spartanburg as of January 1, 2008.

LOCAL ECONOMY

Spartanburg County possesses a diversified business and industry base. The following types of industry represent major employers in Spartanburg County: automotive, research and development on yarns/chemicals, flexible plastic packaging materials, radial truck tires, china plumbing fixtures, catalog printing and binding, non-woven materials and consumer specialty bags. Spartanburg County has the highest per capita international investment in the nation. The County has an available, skilled labor force and has taken advantage of the State's excellent worker training programs. Other major employers in the area include public schools, state and local governments, and health care providers.

The city serves as the national headquarters for Denny's, QS/1, and Advance America. The Chapman Cultural Center serves Spartanburg's cultural community for visual and performing arts, science and history. The 86,000-square-foot center is in downtown Spartanburg, adjacent to Barnet Park. The USC Upstate George Dean Johnson, Jr. College of Business and Economics is located in the heart of downtown Spartanburg.

Spartanburg County's unemployment rate in June 2019 was 3.5%, as compared with the state rate of 3.6% and the national rate of 3.7%.

FINANCIAL MANAGEMENT

The District adopts an annual operating budget for management and financial planning purposes. The District's computerized financial planning and rate-setting model is updated annually to provide for a five-year financial plan. Capital improvement plans, and applicable debt service projections for future bond issues, are incorporated in the financial planning process. The five-year plan is reviewed with the Commission, which adopts the budget and rates for the upcoming year only. The overall objective of the financial planning process is to minimize the impact of customer rate increases, while maintaining required debt service coverage. Other considerations of the financial planning process include: volume trends by customer class; maintaining sufficient fund balances to meet the District's operations, maintenance, and capital improvement needs; growth trends for various expenditure categories; and the comparison of customer rates to other utilities in the region. During the fiscal year, financial management tracking includes the following: monthly preparation and analytical review of departmental and company-wide financial reports; significant expenditure variances require follow-up with the responsible budget manager; the company-wide financial report is presented at the monthly Commission meeting; utility user charges are monitored monthly in relation to the approved budget and historical results; the tracking of utility user charges is performed for revenues and flows by customer class.

The Red Flags Rule is federal legislation that requires government agencies, including utilities, to develop written, board-approved programs designed to detect, prevent, and mitigate identity theft. A written Red Flags Identity Theft Prevention Program was approved by the Commissioners on April 28, 2009; the program details the procedures implemented to verify the identity of applicants opening new accounts and to protect sensitive customer information such as social security numbers, bank account information, and credit card numbers. The Red Flags Rule program is monitored on an ongoing basis to ensure compliance with procedures and to provide training. The annual Red Flags Program report was provided at the June 25, 2019 Commission meeting. Management concluded that the program is effective, the policies and procedures have been followed, and that the internal controls and electronic security measures are protecting sensitive customer data.

The District's cash management policy provides that available funds are invested overnight and longer-term in accordance with state law, which permits the following types of investments: obligations of the U.S. and its agencies, general obligations of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit collaterally secured, repurchase agreements secured by the foregoing obligations, and the State Treasurer's Investment Pool. For more information regarding the June 30, 2019 investment distribution, see Note 2 to the Financial Statements.

The District is a member of the South Carolina Retirement System, one of four defined benefit retirement systems administered and maintained by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA). For information regarding the District's retirement plan, see Note 6 to the Financial Statements.

For information regarding the District's risk management function, see Note 9 to the Financial Statements.

FINANCIAL CONDITION

The increase in net position for fiscal year 2019 was \$4,216,981, an 8.5% increase for the fiscal year. The customer base increased by 893 accounts, or 2.0%, for fiscal year 2019. The average annual growth rate over the past five years was 2.4%. Debt service coverage of 110% is required by the District's revenue bond covenant. The fiscal year 2019 debt service coverage ratio based on the revenue bond covenant was 174%. A recent rate survey of comparable utilities in the region indicated that the District's customer rates compared favorably with the majority of the agencies in the survey.

Various funds are maintained to meet the operational, maintenance, and capital improvement needs of the district. The Depreciation Fund provides for the renovation and replacement of operational equipment and system facilities, and has been adequately funded in recent years with a June 30, 2019 balance of \$4,518,656. The Collection System Rehab Fund provides for the evaluation, maintenance and replacement of the collection system; the year-end balance is \$2,688,904. The Rate Stabilization Fund, which was established to provide for the smoother transition of future rate increases, has a balance of \$3,530,566 at June 30, 2019.

AWARDS

Spartanburg Water (Spartanburg Water System and Spartanburg Sanitary Sewer District) was the recipient of two national awards at the National Association of Clean Water Agencies (NACWA). Spartanburg Water was the sole recipient of *The Water Resources Utility of the Future Award*, given to member agencies that demonstrate bold, transformational leadership in managing resources, partnering effectively in local economic development, and engaging stakeholders – resulting in environmental, economic, and social benefits. Spartanburg Water was recognized for its innovative programs to engage its customers, including Choose Tap, Water Matter and events like Paddle Fest and Lake Sweep. *The Public Information & Education Awards* honor agencies for their inventive efforts to educate the public on the effects of wastewater treatment and pollution control on the environment.

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to Spartanburg Sanitary Sewer District for its comprehensive annual financial report for the fiscal year ended June 30, 2018. This was the sixteenth year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

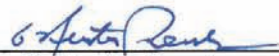
ACKNOWLEDGEMENTS

We appreciate the support of the Commissioners and the dedication of all our District employees.

Respectfully Submitted,



Sue G. Schneider
Chief Executive officer



G. Newton Pressley
Chief Financial Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Spartanburg Sanitary Sewer District
South Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

II. FINANCIAL SECTION

To the Commissioners and Officers of
Spartanburg Sanitary Sewer District
200 Commerce Street
Spartanburg, South Carolina

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Spartanburg Sanitary Sewer District as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Spartanburg Sanitary Sewer District as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Commissioners and Officers of
Spartanburg Sanitary Sewer District
Page Two

Emphasis-of-Matter

As discussed in Note 14 to the financial statements, in the year ended June 30, 2018, the Spartanburg Sanitary Sewer District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. 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, schedules of the District's proportionate share of the collective net pension liability and employer contributions, and schedules of changes in the net OPEB liability and related ratios and employer contributions, as listed in the table of contents, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Spartanburg Sanitary Sewer District's basic financial statements. The schedules of operating expenses and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules of operating expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

McAbee, Schwartz, Halliday & Co.

Spartanburg, South Carolina
December 2, 2019

Spartanburg Sanitary Sewer District Management's Discussion and Analysis

This Management Discussion and Analysis ("MD&A") serves as an introduction to the basic financial statements and provides a narrative overview and analysis of the District's financial condition and performance for the fiscal year ended June 30, 2019. This information should be read in conjunction with the transmittal letter and the District's financial statements, as listed in the table of contents included in this report.

Financial Highlights

As of June 30, 2019, total assets of \$220,959,661 and deferred outflows of resources of \$7,947,951 exceed total liabilities of \$174,378,716 and deferred inflows of resources of \$482,447 by \$54,046,449. For fiscal year 2018, total assets of \$224,380,565 and deferred outflows of resources of \$8,624,959 exceeded total liabilities of \$182,968,983 and deferred inflows of resources of \$207,073 by \$49,829,468.

For the fiscal year ended June 30, 2019, increase in net position, before capital contributions, was \$2,233,760. The District's increase in net position, after capital contributions of \$1,983,221, was \$4,216,981. For fiscal year 2018, increase in net position, before capital contributions, was \$2,116,851, and increase in net position, after capital contributions of \$2,004,843, was \$4,121,694.

For fiscal year 2019, operating revenues increased by \$1,027,687 to \$27,146,609, or 3.9%, non-operating revenues increased by \$705,044 to \$8,134,165, or 9.5%, and total expenses increased by \$1,615,822 to \$33,047,014 or 5.1%. For fiscal year 2018, operating revenues decreased by \$211,355 to \$26,118,922, or 0.8%. For fiscal year 2018, non-operating revenues increased by \$612,256 to \$7,429,121, or 9.0%, and total expenses decreased by \$524,554 to \$31,431,192, or 1.6%.

Debt service coverage of 110% is required by the District's revenue bond covenant. The fiscal year 2019 debt service coverage ratio based on the revenue bond covenant was 174%. The fiscal year 2018 total District debt service coverage ratio was 154%.

Overview of the Financial Statements

The financial statements of the District report information about the District using accounting methods similar to those used by private-sector companies. These statements provide both long-term and short-term information about the District's overall financial status.

The Statements of Net Position present the District's financial position and reports information on all of the assets (resources owned by the District), deferred outflows of resources, liabilities (obligations of the District), and deferred inflows of resources with the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources reported as net position.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. Revenue is reported when earned, and expenses are reported when incurred. This statement measures the success of the District's operations over the past year and serves as the basis for determining the District's actual Debt Service Coverage Ratio, as required by the District's revenue bond covenant.

The Statements of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. This statement provides information as to where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the District

The Condensed Statements of Net Position are provided below as a summary of Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position for the years ended June 30, 2019, 2018 and 2017.

Financial Analysis of the District Condensed Statements of Net Position

	2019	2018 Restated	2017 Restated
Assets			
Current and noncurrent assets	\$ 47,664,609	\$ 46,352,816	\$ 51,085,479
Capital assets	173,295,052	178,027,749	172,885,930
Total Assets	\$ 220,959,661	\$ 224,380,565	\$ 223,971,409
Deferred Outflows of Resources			
Deferred loss on refundings	\$ 6,532,883	\$ 7,090,095	\$ 7,647,318
Deferred amounts related to pension	907,900	1,095,186	998,833
Deferred amounts related to OPEB	507,168	439,678	-
Total Deferred Outflows of Resources	\$ 7,947,951	\$ 8,624,959	\$ 8,646,151
Liabilities			
Current liabilities	\$ 9,322,465	\$ 11,693,035	\$ 10,084,318
Noncurrent liabilities	165,056,251	171,275,948	173,135,485
Total Liabilities	\$ 174,378,716	\$ 182,968,983	\$ 183,219,803
Deferred Inflows of Resources			
Deferred amounts related to pensions	\$ 398,085	\$ 134,852	\$ -
Deferred amounts related to OPEB	84,362	72,221	-
Total Deferred Inflows of Resources	\$ 482,447	\$ 207,073	\$ -
Net Position			
Net investment in capital assets	\$ 36,086,305	\$ 37,037,115	\$ 41,632,938
Unrestricted	17,960,144	12,792,353	7,764,819
Total Net Position	\$ 54,046,449	\$ 49,829,468	\$ 49,397,757

Current and noncurrent assets increased by \$1,311,793 to \$47,664,609 and decreased \$4,732,663 to \$46,352,816 in fiscal year 2019 and 2018, respectively, primarily due to an increase in cash and investments. Additionally, capital assets decreased by \$4,732,697 to \$173,295,052 in fiscal year 2019 and increased by \$5,141,819 to \$178,027,749 in fiscal year 2018. See Capital assets section on page 9 for further explanation.

For the current fiscal year the District's long-term debt, including current maturities, decreased by \$6,099,784 to \$158,649,201 or 3.7% and increased by \$5,888,550 or 3.5% for the prior fiscal year.

Current and noncurrent assets included cash and investments of \$41,497,529 and \$39,754,923 as of June 30, 2019 and 2018, respectively. The distribution by fund of the year-end balances is provided below:

Fund	2019	2018
Operating	\$ 5,096,620	\$ 4,378,752
Debt service trust account	3,321,981	3,455,165
Debt service reserve account	4,226,101	4,206,144
Rate stabilization	3,530,566	3,445,416
Depreciation	4,518,656	3,818,522
Collection system rehab	2,688,904	2,524,839
Capital project funds		
Capital	11,493,046	8,552,362
Bond funds	6,621,655	9,373,722
Total cash and investments	\$ 41,497,529	\$ 39,754,923

Also included in current and noncurrent assets for fiscal year 2019 are receivables of \$5,122,992, with the substantial portion associated with user charge receivables, as follows: billed, not collected, net of allowance for doubtful accounts \$1,462,449, amount collected by Spartanburg Water System and transferred to the District after year-end \$2,199,325 and revenue earned but not yet billed \$1,397,048. For fiscal year 2018, the receivables of \$5,589,365, with the substantial portion associated with user charge receivables, as follows: billed, not collected, net of allowance for doubtful accounts \$1,426,256, amount collected by Spartanburg Water System and transferred to the District after year-end \$2,274,242 and revenue earned but not yet billed \$1,825,586.

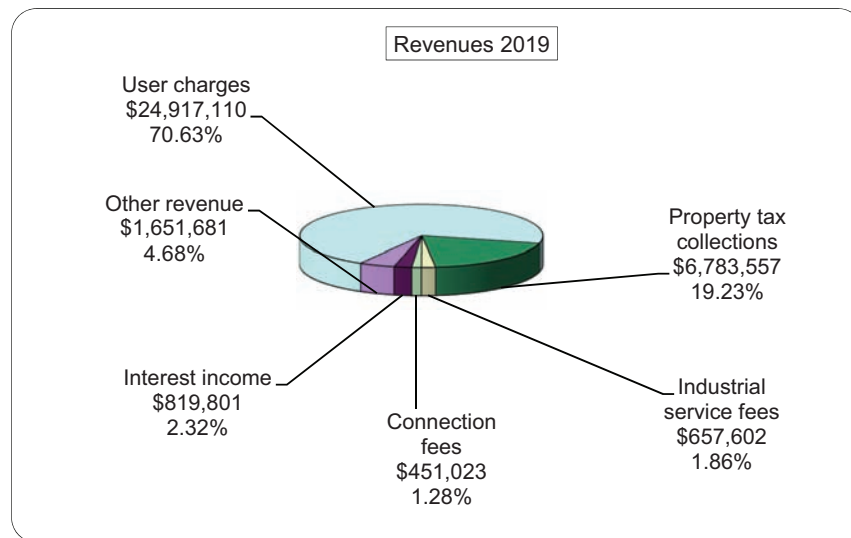
Current liabilities as of June 30, 2019, included accounts payable from operating funds of \$437,089, and accounts payable from capital funds of \$174,880, retainage payable of \$574,518 and the intercompany payable to the Spartanburg Water System of \$943,839 that is included in other payables. June 30, 2018 current liabilities included accounts payable from operating funds of \$469,210, and accounts payable from capital funds of \$2,227,183, retainage payable of \$594,514 and the inter-company payable to the Spartanburg Water System of \$895,852 that is included in other payables.

The Condensed Statements of Revenues, Expenses and Changes in Net Position are provided below as a summary for the fiscal years ended June 30, 2019, 2018, and 2017.

**Condensed Statements of Revenues, Expenses
and Changes in Net Position**

	2019	Restated 2018	Restated 2017
Revenues			
Operating revenues			
User charge revenues	\$ 24,917,110	\$ 24,701,500	\$ 25,081,281
Other operating revenues	2,229,499	1,417,422	1,248,996
	<u>27,146,609</u>	<u>26,118,922</u>	<u>26,330,277</u>
Nonoperating revenues			
Property tax collections	6,783,557	6,340,946	6,038,111
Other nonoperating revenue	1,350,608	1,088,175	778,754
	<u>8,134,165</u>	<u>7,429,121</u>	<u>6,816,865</u>
Total revenues	<u>35,280,774</u>	<u>33,548,043</u>	<u>33,147,142</u>
Expenses			
Operating expenses, before depreciation	15,887,314	14,501,674	14,523,095
Depreciation expense	10,421,350	10,213,381	10,371,935
Non-operating expenses	6,738,350	6,716,137	7,060,716
Total expenses	<u>33,047,014</u>	<u>31,431,192</u>	<u>31,955,746</u>
Change in net position before capital contributions	2,233,760	2,116,851	1,191,396
Capital contributions	1,983,221	2,004,843	3,678,468
Change in net position	4,216,981	4,121,694	4,869,864
Net position, beginning of year, restated (2018)	49,829,468	45,707,774	44,527,893
Net position, end of year	<u>\$ 54,046,449</u>	<u>\$ 49,829,468</u>	<u>\$ 49,397,757</u>

Revenues (excluding capital contributions) of \$35,280,774 for the fiscal year ended June 30, 2019, were comprised of the following:



User charge revenue increased from fiscal year 2018 to fiscal year 2019 by \$215,610, or 0.87%, primarily due to an increase in usage. The decrease from fiscal year 2017 to fiscal year 2018 was \$379,781, or 1.5%, primarily due to a decrease in usage.

Pursuant to Act No. 1503 of 1970, the District has the authority to levy taxes uniformly throughout the District. The tax revenue may be used to pay debt service on eligible General Obligation ("G.O.") debt and to pay administrative expenses for the District. Property tax revenue was \$6,783,557 and increased by \$442,611, or 6.98% primarily due to the increase in real estate and fee in lieu tax collections. Property tax revenue during fiscal year 2019 consisted of: real property of \$5,168,576, vehicles of \$596,593, delinquent taxes of \$139,401, homestead reimbursement of \$243,349, and other sources of \$635,638. Property tax revenue for fiscal year 2018 was \$6,340,946 and consisted of: real property of \$4,816,376 vehicles of \$610,044, delinquent taxes of \$181,261, homestead reimbursement of \$243,701 and other sources of \$489,546 which was an increase of \$302,835, or 5.00%, which was also attributed to an increase in vehicle tax collections, fee in lieu taxes and a full year of the bond millage for the 2016 GO Bond.

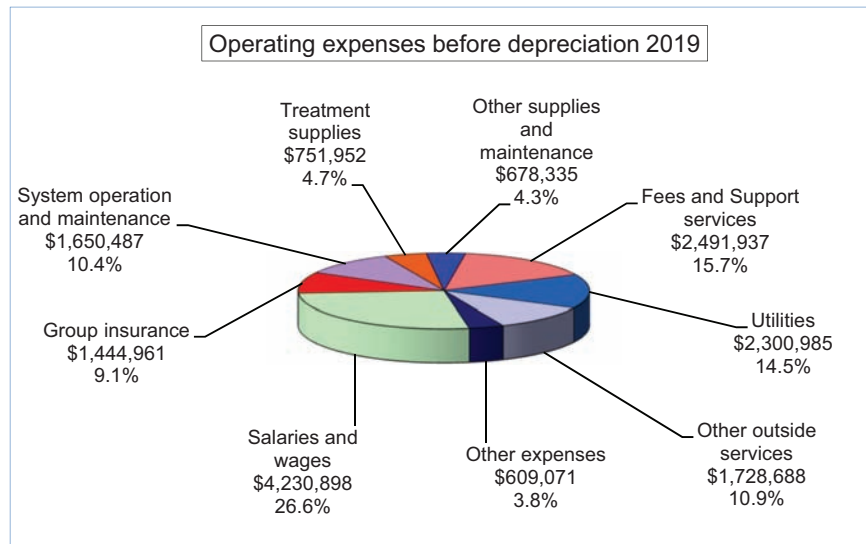
For the calendar year 2019, the operating and bond millage are 7.5 and 1.1, respectively; in comparison to 7.8 and 1.1, respectively in calendar year 2018.

Interest income increased \$438,694, or 115.1%, to \$819,801 for fiscal year 2019, due to rising interest rates, following an increase of \$174,932, or 84.8% in fiscal year 2018, due to the increased investment in capital and rate stabilization accounts.

Industrial service fees of \$657,602 included industrial service charges of \$317,152 and industrial surcharge revenues of \$340,450 for fiscal year 2019 compared to a total of \$566,058 for fiscal year 2018.

Other revenue includes intercompany reimbursements, grease and septage disposal fee, service processing/inspection fees, miscellaneous cost recoveries including the PCB settlement from the insurance reserve fund of \$675,000, and sewer collection fees.

Operating expenses before depreciation were comprised of the following:



The following tables provide a comparison of fiscal year 2019 and 2018 and fiscal year 2018 and 2017 operating expenses for major expense categories.

Comparison of operating expenses before depreciation

Expense Category	Increase/(Decrease) From 2018 to 2019			
	2019	2018	Amount	% of Change
Salaries and wages	\$ 4,230,898	\$ 4,208,436	\$ 22,462	0.5%
Group insurance	1,444,961	1,059,410	385,551	36.4%
System operation and maintenance	1,650,487	1,618,098	32,389	2.0%
Treatment supplies	751,952	521,077	230,875	44.3%
Other supplies and maintenance	678,335	723,985	(45,650)	-6.3%
Fees and support services	2,491,937	2,405,163	86,774	3.6%
Utilities	2,300,985	1,935,383	365,602	18.9%
Other outside services	1,728,688	1,435,883	292,805	20.4%
Other expenses	609,071	594,239	14,832	2.5%
Total operating expenses before depreciation	<u>\$ 15,887,314</u>	<u>\$ 14,501,674</u>	<u>\$ 1,385,640</u>	<u>9.6%</u>

Comparison of operating expenses before depreciation

Expense Category			Increase/(Decrease) From 2017 to 2018	
	2018	2017	Amount	% of Change
Salaries and wages	\$ 4,208,436	\$ 4,192,755	\$ 15,681	0.4%
Group insurance	1,059,410	1,173,516	(114,106)	-9.7%
System operation and maintenance	1,618,098	1,559,311	58,787	3.8%
Treatment supplies	521,077	710,051	(188,974)	-26.6%
Other supplies and maintenance	723,985	802,868	(78,883)	-9.8%
Fees and support services	2,405,163	2,253,368	151,795	6.7%
Utilities	1,935,383	1,909,984	25,399	1.3%
Other outside services	1,435,883	1,397,458	38,425	2.7%
Other expenses	594,239	523,784	70,455	13.5%
Total operating expenses before depreciation	<u>\$ 14,501,674</u>	<u>\$ 14,523,095</u>	<u>\$ (21,421)</u>	<u>-0.1%</u>

Operating expenses, before depreciation, increased by \$1,385,640, or 9.6% from fiscal year 2018 to fiscal year 2019, primarily due to an increase in treatment supplies, group insurance, utilities and legal fees. The decrease from fiscal year 2017 to fiscal year 2018 was \$21,421, or 0.1%, primarily due to a decrease in group insurance and treatment supplies and offset by an increase in other expenses. Highlights of the fiscal years 2019-2018 expense comparison is provided below:

- The Group insurance increase resulted from an unfavorable claims experience for fiscal year 2019.
- The Treatment supplies increase was primarily associated with a usage increase of chemicals at the Landrum, North Tyger, Fairforest and solids management facilities, due to abnormally high rainfall from September 2018 to February 2019. The flow increase associated with the rainfall required more chemical usage for the treatment.
- The Utilities increase was primarily due to power costs associated with increased pumping to the Pacolet River from the Fairforest Facility.
- The Other outside services line item includes Legal Fees, Uniform rentals, Consulting services, Audit fees, Postage and delivery expense and other outside services. The fiscal year 2019 increase is primarily due to Legal fees incurred regarding litigation in conjunction with PCB damages.
- The other line items reflected no significant change in the comparison of fiscal year 2019 to fiscal year 2018.

Non-operating expenses totaled \$6,738,380 for the year and consisted of interest expense and paying agent fees. Total interest expense and paying agent fees increased by \$22,213.

Capital Contributions

The District receives contributions from developers in the form of cash payments and donated lines; and occasionally, contributions from federal/state agencies in the form of grants for capital projects. Accounting principles generally accepted by the United States of America require that these contributions be reflected as a revenue source on the Statements of Revenues, Expenses and Changes in Net Position. Capital contributions for fiscal year 2019 totaled \$1,983,221, a decrease of \$21,622 or 1.08%, and were comprised of donated lines. The most significant capital contributions during fiscal year 2019 are as follows: The Village at Anderson Mill, 2010 Nazareth Church Rd., Millsgate Subdivision, Kensington Creek Phase II and Orchards at Reidville Ph2. Capital contributions for fiscal year 2018 totaled \$2,004,843, a decrease of \$1,673,625, or 45.5%, from fiscal year 2017 and were comprised of donated lines. The most significant capital contributions during fiscal year 2018 were as follows: TRIP North Ph 2.1, Quik Trip, Peachtree Park, Myers Park and District 7 Elementary School.

Capital Assets

At June 30, 2019, the District had \$173,295,052 invested in capital assets, as provided in the schedule below:

Capital Assets at Year-End			
	2019	Restated 2018	Restated 2017
Treatment plants, interceptor lines, and collection lines	\$ 304,244,707	\$ 298,330,217	\$ 293,837,853
Other facilities and property	1,845,999	1,845,999	1,845,999
Vehicles, office and maintenance equipment	17,067,272	16,570,036	14,887,529
Construction in progress	12,750,372	13,881,578	4,871,925
Subtotal	335,908,350	330,627,830	315,443,306
Accumulated depreciation	(162,613,298)	(152,600,081)	(142,557,376)
Capital assets - net of depreciation	\$ 173,295,052	\$ 178,027,749	\$ 172,885,930

The fiscal year 2019 overall decrease in capital assets was a result of the increase in Treatment plants, interceptor lines, and collection lines, decrease in construction in progress and increase in current year depreciation. The Treatment plants, interceptor lines, and collection lines increase was primarily due to current and prior year construction projects completed with an offsetting decrease in donated sewer lines. The net decrease for construction in progress resulted primarily from the following closed projects: Greenville Branch Creek Sewer Interceptor Rehab, LNTR Basin Sewer Rehab Phase III and Pacolet Mills Liner Replacement.

The fiscal year 2018 overall increase in capital assets was a result of an increase in Treatment plants, interceptor lines, and collection lines, increase in construction in progress and current year depreciation. The Treatment plants, interceptor lines, and collection lines increase was primarily due to current and prior year construction projects completed with an offsetting decrease in donated sewer lines. The net increase for construction in progress resulted primarily from the following: LNTR WWTP Expansion & Upgrade, Greenville Branch Creek Sewer Interceptor Rehab, LNTR Basin Sewer Rehab Phase III and Pacolet Mills Liner Replacement.

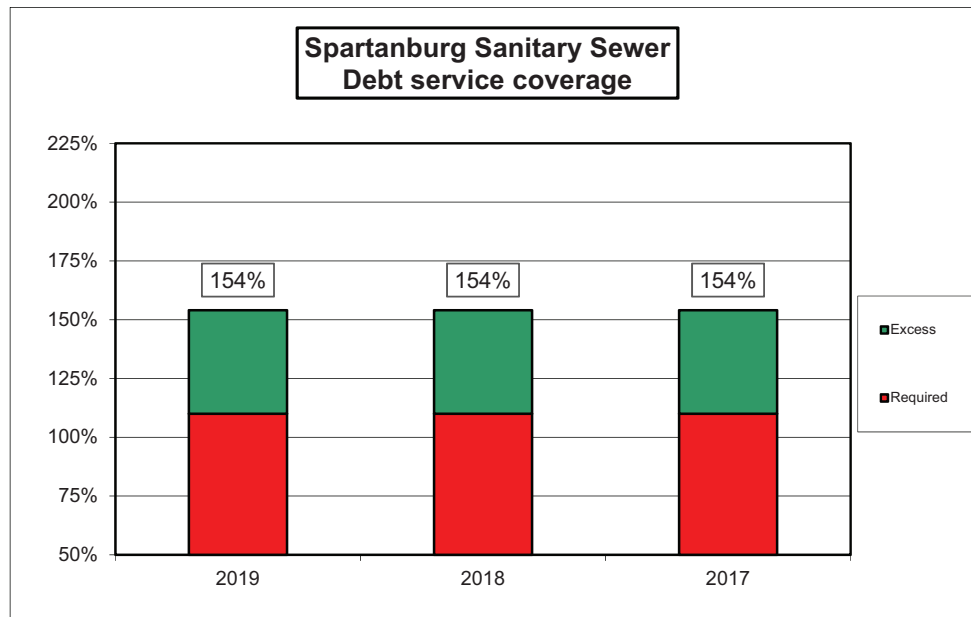
Debt Administration

Debt Service Coverage

In the District's revenue bond resolution, the District covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the system which, together with other income, are reasonably expected to yield annual net earnings in the current fiscal year equal to at least 110% of the annual principal and interest requirements for all revenue bonds outstanding in such fiscal year, plus 100% of debt service on any general obligation bonds not paid from ad valorem tax receipts. The computation of net earnings is presented by the detailed schedule of Debt Service Coverage, which is provided in the statistical section of this report.

The District's historical debt service coverage is summarized by the table below:

Debt Service Coverage	2019	2018	2017
Net earnings per Revenue bond covenant	\$ 15,714,545	\$ 15,644,508	\$ 15,619,578
Debt service requiring coverage, per covenant			
Revenue bond debt service	9,049,389	9,043,103	9,090,061
G.O. Debt service paid with revenues	-	-	-
Debt service amount for coverage test	\$ 9,049,389	\$ 9,043,103	\$ 9,090,061
Debt service coverage ratio based on revenue covenant	1.74	1.73	1.72
Net earnings per revenue bond covenant	15,714,545	15,644,509	15,619,578
Plus: Ad valorem taxes used for G.O. debt service	3,215,995	3,219,960	2,967,750
Adjusted net earnings	\$ 18,930,540	\$ 18,864,469	\$ 18,587,328
Total District debt service	\$ 12,265,384	\$ 12,263,063	\$ 12,057,811
Total District debt coverage ratio	1.54	1.54	1.54



Outstanding Debt at Year-End

The District had \$151,523,259 in debt outstanding at year-end, as scheduled below:

	Average Yield	Outstanding Debt		
		2019	2018	2017
Long-term Debt				
General Obligation Bonds				
2010 General Obligation Refunding Bonds	3.75%	\$ 12,020,000	\$ 12,020,000	\$ 12,020,000
2011 General Obligation Refunding Bonds	2.89%	5,005,000	5,730,000	6,425,000
2013 General Obligation Bonds	2.50%	3,455,000	3,455,000	3,455,000
2014 General Obligation Refunding Bonds	2.20%	5,352,000	6,052,000	6,737,000
2016 General Obligation Bonds	2.52%	14,455,000	14,770,000	15,075,000
		40,287,000	42,027,000	43,712,000
Revenue Bonds				
2009A Sewer Revenue Refunding Bonds	3.97%	2,435,000	3,585,000	4,685,000
2009B Sewer Revenue Refunding Bonds	3.97%	12,595,000	13,860,000	15,070,000
2011 Sewer Taxable Revenue Bond	3.49%	475,000	1,445,000	2,385,000
2013A Sewer Revenue Refunding Bonds	3.55%	8,380,000	8,380,000	8,380,000
2013B Sewer Revenue Refunding Bonds	3.55%	50,125,000	50,125,000	50,125,000
2014A Revenue Refunding Bonds	3.86%	4,195,000	4,320,000	4,440,000
2014B Convertible Refunding Bonds	3.86%	32,960,000	33,330,000	33,685,000
		111,165,000	115,045,000	118,770,000
Loans				
State Revolving Fund Loan	3.50%	71,259	126,844	181,197
Total Debt Outstanding		\$ 151,523,259	\$ 157,198,844	\$ 162,663,197

For more information on changes in long-term debt, see Note 4 to the financial statements.

G.O. Debt Limit

The District may issue G.O. debt up to an amount equal to 8% of the last certified District assessment, without the requirement of conducting a referendum. Current G.O. debt capacity is determined as follows:

Final 2018 Assessed Value, less	
mfg. depreciation reduction	\$ 708,139,488
G.O. debt ceiling percentage	8%
Current G.O. debt ceiling	<u>56,651,159</u>
Less: outstanding G.O. debt	<u>40,287,000</u>
Available G.O. debt capacity	<u>\$ 16,364,159</u>

Bond Ratings

The District improved the following ratings during fiscal year 2019:

Agency	Revenue	G.O.
Standard & Poor's	AA	AA
Moody's	Aa3	Aa3

Financial Planning

Although the District does not have a legally adopted budget, an annual operating budget is adopted for management and financial planning purposes. The District conducts an update of the financial planning process as follows: departmental staffing plans, detailed budget requests, and depreciation schedules are prepared; District-wide budget information, including revenues, flow estimates, debt service, cost allocations, etc., are completed; capital improvement plans, and applicable debt service projections are utilized for long-term financial planning; the computerized financial planning and rate-setting model is updated to provide for a five-year financial projection; the annual operating budget is presented to the Commission; and a public hearing is advertised and held prior to final approval of the budget, tax levy, and user charges.

The District Commission approved an Annual operating budget for fiscal year 2020 in the total amount of \$34,802,395, which represents a 6.0% increase over the previous year's budgeted revenues and expenditures. The fiscal year 2020 budget included funding of reserves as follows: Depreciation fund - \$2,000,000; Capital - \$2,445,000; and the Collection system rehab fund - \$1,200,000.

Other Significant Matters

- **Collection System Rehab Program**
The District has continued rehab program efforts associated with the Collection System infrastructure. These project activities include sewer line rehab work, creek crossings, manhole rehab work, right-of-way clearing, and large line cleaning.
- **Monthly Billing**
Spartanburg Water System and Sanitary Sewer District introduced monthly billing in February 2018. Most customers were previously billed on a bimonthly basis. Monthly billing provides various benefits to customers: more efficient household budgeting, timely water usage information, and earlier detection of water leaks. Monthly billing represents the more typical billing method utilized in the water/sewer industry.
- In August 2019, the District entered into an asset purchase agreement to purchase Moore Sewer Inc.'s assets and assumed liabilities of \$155,000.
- In November 2019, the District offered \$7,135,000 in Sewer System Refunding Revenue Bonds, Series 2019 and \$10,795,000 in General Obligation Refunding Bonds, Series 2019, respectively for the purpose of refunding the outstanding Sewer System Convertible Refunding Bonds, Series 2009B and General Obligation Refunding Bonds, Series 2010, respectively, expected to close in December 2019.

Requests for Information

This financial report is intended to provide a general overview of the District's finances. For questions concerning this report or other requests for financial information, please contact:

Chief Financial Officer
Spartanburg Sanitary Sewer District
P.O. Box 251
Spartanburg, SC 29304
(864) 583-7361

SPARTANBURG SANITARY SEWER DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2019	Restated 2018
Assets		
Current assets		
Cash	\$ 1,767,589	\$ 2,728,628
Investments	25,560,182	20,237,907
User charge receivable - net of allowance for doubtful accounts of \$133,013 and \$137,324 for 2019 and 2018, respectively	2,859,497	3,251,842
Taxes receivable - net of allowance for doubtful accounts of \$465,666 and \$451,460 for 2019 and 2018, respectively	55,099	54,210
Assessments and improvement charges receivable	9,071	9,071
Other receivables	2,199,325	2,274,242
Inventories	1,044,088	1,008,528
Total current assets	33,494,851	29,564,428
Noncurrent assets		
Restricted cash	422,500	343,348
Restricted investments	13,747,258	16,445,040
Capital assets - nondepreciable	12,750,372	13,881,578
Capital assets - net of accumulated depreciation	160,544,680	164,146,171
Total noncurrent assets	187,464,810	194,816,137
Total Assets	220,959,661	224,380,565
Deferred Outflows of Resources		
Deferred loss on refundings	6,532,883	7,090,095
Deferred amounts related to pensions	907,900	1,095,186
Deferred amounts related to OPEB	507,168	439,678
Total Deferred Outflows of Resources	7,947,951	8,624,959

SPARTANBURG SANITARY SEWER DISTRICT
STATEMENTS OF NET POSITION - CONTINUED
JUNE 30, 2019 AND 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2019	Restated 2018
Liabilities		
Current liabilities		
Accounts payable	1,178,024	3,284,182
Accrued salaries and wages	354,802	387,701
Accrued employee benefits	137,246	83,618
Accrued interest expense	2,081,707	2,066,096
Other payables	943,839	895,852
Long-term debt - current portion	4,626,847	4,975,586
Total current liabilities	9,322,465	11,693,035
Noncurrent liabilities		
Net pension liability	7,082,022	7,531,484
Net other post-employment benefit liability	3,951,875	3,971,065
Long-term debt - net of current portion	154,022,354	159,773,399
Total noncurrent liabilities	165,056,251	171,275,948
Total Liabilities	174,378,716	182,968,983
Deferred Inflows of Resources		
Deferred amounts related to pensions	398,085	134,852
Deferred amounts related to OPEB	84,362	72,221
Total Deferred Inflows of Resources	482,447	207,073
Net Position		
Net investment in capital assets	36,086,305	37,037,115
Unrestricted	17,960,144	12,792,353
Total Net Position	\$ 54,046,449	\$ 49,829,468

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

SPARTANBURG SANITARY SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	Restated 2018
Operating Revenues		
User charge revenues	\$ 24,917,110	\$ 24,701,500
Industrial service fees	657,602	566,058
Treatment charges	394,185	275,210
Miscellaneous	1,177,712	576,154
	<u>27,146,609</u>	<u>26,118,922</u>
Operating Expenses		
Operating expenses before depreciation	15,887,314	14,501,674
Depreciation	10,421,350	10,213,381
	<u>26,308,664</u>	<u>24,715,055</u>
Operating Income	<u>837,945</u>	<u>1,403,867</u>
Nonoperating Revenues (Expenses)		
Connection fees	451,023	556,654
Property tax collections	6,783,557	6,340,946
Gain on sale of capital assets	79,784	150,414
Interest income	819,801	381,107
Interest expense and paying agent fees	(6,738,350)	(6,716,137)
	<u>1,395,815</u>	<u>712,984</u>
Increase in Net Position, Before Capital Contributions	2,233,760	2,116,851
Capital Contributions	<u>1,983,221</u>	<u>2,004,843</u>
Increase in Net Position	4,216,981	4,121,694
Net Position - Beginning of Year	<u>49,829,468</u>	<u>45,707,774</u>
Net Position - End of Year	<u><u>\$ 54,046,449</u></u>	<u><u>\$ 49,829,468</u></u>

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

Exhibit C

SPARTANBURG SANITARY SEWER DISTRICT
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	Restated 2018
Cash Flows Provided (Used) by Operating Activities		
Cash received from customers	\$ 27,579,329	\$ 27,077,787
Cash paid to suppliers for goods and services	(12,227,338)	(7,932,547)
Cash paid to or for the benefit of employees	(5,757,196)	(5,104,386)
	<u>9,594,795</u>	<u>14,040,854</u>
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Connection fees	451,023	556,654
Property tax collections	6,783,557	6,340,946
Acquisition and construction of capital assets	(3,713,488)	(13,350,358)
Proceeds from sale of capital assets	87,840	150,414
Principal payments - general obligation bonds	(1,740,000)	(1,685,000)
Principal payments - revenue bonds	(3,880,000)	(3,725,000)
Principal payments - state revolving fund loan	(55,586)	(54,352)
Interest and paying agent fees	(6,605,336)	(6,583,111)
	<u>(8,671,990)</u>	<u>(18,349,807)</u>
Cash Flows Provided (Used) by Investing Activities		
Interest income	819,801	381,107
	<u>819,801</u>	<u>381,107</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,742,606	(3,927,846)
Cash and Cash Equivalents - Beginning of Year	39,754,923	43,682,769
Cash and Cash Equivalents - End of Year	<u>\$ 41,497,529</u>	<u>\$ 39,754,923</u>

SPARTANBURG SANITARY SEWER DISTRICT
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	Restated 2018
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating income	\$ 837,945	\$ 1,403,867
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	10,421,350	10,213,381
Pension expense	502,700	703,160
OPEB expense	343,695	352,262
(Increase) decrease in assets		
User charge receivable	392,345	785,891
Taxes receivable	(889)	17,919
Other receivables	74,917	155,056
Inventories	(35,560)	(186,921)
Deferred amounts related to pensions	(501,643)	(410,479)
Deferred amounts related to OPEB	(418,234)	(405,765)
Increase (decrease) in liabilities		
Accounts payable	(2,106,158)	1,551,886
Accrued salaries and wages	(32,899)	218
Accrued employee benefits	53,628	(33,817)
Accrued interest expense	15,611	(6,829)
Other current liabilities	47,987	(98,975)
Net Cash Provided by Operating Activities	<u>\$ 9,594,795</u>	<u>\$ 14,040,854</u>
Noncash Investing, Capital and Financing Activities		
Contribution of capital assets	\$ 1,983,221	\$ 2,004,843
Amortization included in interest expense	\$ 133,015	\$ 133,026

Exhibit C - Continued

SPARTANBURG SANITARY SEWER DISTRICT
 STATEMENTS OF CASH FLOWS - CONTINUED
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	Restated 2018
Reconciliation of Cash and Investments as Shown on the Statements of Net Position and Cash Flow Statements		
Statement of net position classifications		
Current assets		
Cash	\$ 1,767,589	\$ 2,728,628
Investments	25,560,182	20,237,907
	<u>27,327,771</u>	<u>22,966,535</u>
Noncurrent assets		
Restricted cash	422,500	343,348
Restricted investments	13,747,258	16,445,040
	<u>14,169,758</u>	<u>16,788,388</u>
	<u>\$ 41,497,529</u>	<u>\$ 39,754,923</u>
Cash flow classifications		
Petty cash	\$ 550	\$ 550
Cash deposits	2,189,539	3,071,426
Investments - cash equivalents	39,307,440	36,682,947
	<u>\$ 41,497,529</u>	<u>\$ 39,754,923</u>

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

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Spartanburg Sanitary Sewer District (the District) is presented to assist in understanding the financial statements. The financial statements and notes are representations of the District's management, which are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (US GAAP) and have been consistently applied in the preparation of the financial statements.

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

Reporting Entity

The District provides public sewer utility services to the residents and businesses of Spartanburg, South Carolina and surrounding communities. The District is a special purpose district created in the year 1929 by the General Assembly of the State of South Carolina. The District is a primary government with no component units. The District is governed by a seven-member commission comprised of three commissioners of the Commission of Public Works of the City of Spartanburg, the Mayor of the City of Spartanburg and three commissioners elected by citizens residing within the District but outside the area of the City of Spartanburg.

Basis of Accounting

Under US GAAP, the District is considered to be a self-supporting enterprise, and these financial statements are presented accordingly. Enterprise funds are used to account for operations which are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The basis of accounting employed is the accrual method whereby revenues are recognized when they are earned and expenses are recognized when they are incurred. Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles.

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the District's policy to use the restricted resources first, then unrestricted resources as they are needed.

Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions and ancillary activities.

Cash and Cash Equivalents

For purposes of reporting cash flows, all investments with a maturity of three months or less at the time of purchase are considered to be cash equivalents.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments

Investments are stated at fair value.

Accounts Receivable

User charge receivables include fees for charges earned but not yet collected. Unbilled (i.e. cycle billings) receivables at year end are estimated to record revenues earned through year end. Receivables are reported net of applicable allowances for uncollectible accounts, which management determines based on historical collection trends and other factors.

Taxes Receivable and Ad Valorem Taxes

Taxes receivable (current and delinquent) represent property taxes that have been collected and remitted to the Spartanburg County Treasurer's office for its distribution to the District.

The District's uncollected assessed taxes that have been transferred to the Spartanburg County Delinquent Tax Collector were \$465,666 and \$451,460 at June 30, 2019 and 2018, respectively. The District has established an offsetting allowance for uncollectible taxes of the same amount.

The District's property taxes (except vehicles) are levied by the Spartanburg County Auditor each fall on the assessed value of the property located in the District's area as of the preceding January 1. The tax books are open for collection September 1, with the first penalty of 3% applied to payments made after January 15, the due date. A total penalty of 10% is charged for payments made after January 31. Uncollected property taxes attach as an enforceable lien on January 1. Uncollected property taxes as of March 15 are transferred to the Spartanburg County Delinquent Tax Collector at which time a total penalty of 15% is assessed. Spartanburg County bills and collects the District's property taxes. The District's property tax revenues are recognized when assessed.

Assessed values for real estate are established annually by the County Tax Assessor based on the assessment ratio applied to the appropriate class of property. Real and personal property taxes in the District's area were assessed at \$708,139,488 and \$674,118,672 for the calendar years 2018 and 2017, respectively.

Inventories

Inventories are valued at cost using the first-in, first-out method. Inventories consist of expendable supplies held for consumption.

Capital Assets

Capital assets are stated at cost. Donated capital assets are recorded at estimated acquisition value on the date donated. Assets are recorded as capital assets when valued at \$1,000 or more.

Prior to fiscal year 2019, major outlays for capital assets and improvements were capitalized as projects were constructed. These costs primarily included construction costs, engineering fees, legal fees and settlements related to acquisition. Effective for fiscal year 2019, the District discontinued capitalized interest on a prospective basis per GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of the Construction Period*.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets - Continued

Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
System infrastructure	10 - 40
Motor equipment	5 - 10
Maintenance equipment	10
Office equipment	3 - 10
Buildings and improvements	20 - 33

Compensated Absences

The District provides eligible employees annual leave for each full calendar month of service. When an employee separates from employment, he is compensated for any unused annual leave.

Employees also accumulate sick leave based upon months of service. Sick leave does not vest and is lost upon termination of employment and thus is not accrued. A portion of accumulated sick leave, not to exceed forty-five days, may be redeemed for cash upon retirement. This redemption liability is neither reasonably estimable in aggregate nor accrued for financial statement purposes.

Long-Term Liabilities

Bond premium and discounts are deferred and equally amortized over the life of the bonds.

Deferred Outflows and Inflows of Resources

In the Statements of Net Position, in addition to assets and liabilities, separate sections for deferred outflows and deferred inflows of resources are reported. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an expense until then. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as revenue until that time. The District's deferred outflows of resources consist of deferred loss on refundings, which is the difference in the carrying value of refunded debt and its reacquisition price, deferred and amortized over the shorter of the life of the refunded or refunding debt; and amounts related to the District's defined benefit pension and OPEB plans. The District's deferred inflows of resources are amounts related to the District's defined benefit pension and OPEB plans.

Capital Contributions

The District frequently has contributions to its sewer system from developers and contractors. In addition, the District receives grant monies for construction of improvements or extensions to its system at various times. The contributions are recognized in the Statements of Revenues, Expenses and Changes in Net Position when earned.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

Custodial credit risk - deposits - the risk that in the event of a bank failure, the deposits may not be returned to the District. The District's policy is to secure funds in accordance with Section 6-5-15 of the S.C. Code of Laws, and will include collateralization of deposits through appropriately pledged securities or other investments. As of June 30, 2019 and 2018, the District was not exposed to custodial credit risk.

Statutes authorized the District to invest in obligations of the United States and its agencies, general obligations (not revenue obligations) of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit collaterally secured, repurchase agreements secured by the foregoing obligations, and the State Treasurer's Investment Pool (SC Pool). The SC Pool, established pursuant to Section 6-6-10 of the South Carolina Code, is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any governing body of a political subdivision of the State, may be deposited.

In addition to the state laws governing allowable investment instruments, the District adopted a formal deposit and investment policy in 2019. The District is to invest its funds based on the following objectives, in priority order: safety, liquidity, and yield.

Credit risk – The District's policy to minimize the risk of loss due to the failure of the security issuer or backer is to limit investments to the safest type of securities; pre-qualify the financial institutions; and diversify the investment portfolio so that potential losses on individual securities will be minimized.

Interest rate risk - the District's policy to minimize the risk that the fair value of securities in the portfolio will fall due to changes in general interest rates is to structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Investments measured and reported at fair value are classified according to the following hierarchy:

Level 1 - Investments reflect prices quoted in active markets.

Level 2 - Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include markets that are not considered active.

Level 3 - Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as a particular investment's risk. Assets classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

The SC Pool is a 2a7-like pool, which is not registered with the Securities and Exchange Commission (SEC), but has a policy that it will operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. In accordance with governmental accounting statements, investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the SC Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. Funds may be deposited by SC Pool participants at any time and may be withdrawn up to 24 hours' notice. Financial statements for the SC Pool may be obtained by writing the Office of State Treasurer, Local Government Investment Pool, Post Office Box 11778, Columbia, South Carolina 29211-1950.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 2 - CASH DEPOSITS AND INVESTMENTS - CONTINUED

The District had the following investments, which are not applicable to the fair value hierarchy, as of June 30, 2019 and 2018:

Investment Type	Maturity	Value		Rating
		2019	2018	
State treasurer's investment pool	<60 days	\$ 32,181,858	\$ 29,364,987	Not rated
First American Government Obligation	<60 days	7,125,582	7,317,960	Aaa-mf
		<u>\$ 39,307,440</u>	<u>\$ 36,682,947</u>	

The Spartanburg Sanitary Sewer District is required under bond indenture agreements in connection with the issuance of bonds, to segregate certain assets. The assets listed below have been segregated and are restricted in use. They are shown in their respective categories in the accompanying statements of net position.

	2019	2018
Restricted Assets for the Acquisition and Construction of Capital Assets Investments	<u>\$ 6,621,676</u>	<u>\$ 9,127,079</u>
Restricted Assets for Debt Service Reserve and Debt Service Funds		
Cash	422,500	343,348
Investments	<u>7,125,582</u>	<u>7,317,961</u>
	<u>7,548,082</u>	<u>7,661,309</u>
	<u>\$ 14,169,758</u>	<u>\$ 16,788,388</u>

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 3 - CAPITAL ASSETS

A summary of changes in capital assets follows:

	2019			
	Balance June 30, 2018	Additions	Removals/ Disposals	Balance June 30, 2019
Capital Assets				
Nondepreciable				
Construction in progress	\$ 13,881,578	\$ 2,712,706	\$ 3,843,912	\$ 12,750,372
Depreciable				
Treatment plants, interceptor and collection lines	246,421,398	3,931,269	-	250,352,667
Collection lines - donated	51,908,819	1,983,221	-	53,892,040
Motor equipment	5,196,715	105,931	387,975	4,914,671
Maintenance equipment	10,717,883	764,070	7,307	11,474,646
Office equipment	655,438	43,424	20,907	677,955
Office real estate	257,433	-	-	257,433
Maintenance facility	648,572	-	-	648,572
Joint lab building	939,994	-	-	939,994
Total depreciable	<u>316,746,252</u>	<u>6,827,915</u>	<u>416,189</u>	<u>323,157,978</u>
Total Capital Assets	<u>330,627,830</u>	<u>9,540,621</u>	<u>4,260,101</u>	<u>335,908,350</u>
Accumulated Depreciation				
Treatment plants, interceptor and collection lines	111,224,565	7,254,320	-	118,478,885
Collection lines - donated	27,012,468	1,834,558	-	28,847,026
Motor equipment	3,828,571	502,290	387,975	3,942,886
Maintenance equipment	8,942,430	756,802	152	9,699,080
Office equipment	583,927	28,065	20,006	591,986
Office real estate	180,787	7,156	-	187,943
Maintenance facility	401,909	13,067	-	414,976
Joint lab building	425,424	25,092	-	450,516
	<u>152,600,081</u>	<u>10,421,350</u>	<u>408,133</u>	<u>162,613,298</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 178,027,749</u>			<u>\$ 173,295,052</u>

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 3 - CAPITAL ASSETS - CONTINUED

	2018			
	Balance June 30, 2017	Additions	Removals/ Disposals	Balance June 30, 2018
Capital Assets				
Nondepreciable				
Construction in progress	\$ 4,871,925	\$ 10,968,769	\$ 1,959,116	\$ 13,881,578
Depreciable				
Treatment plants, interceptor and collection lines	243,933,878	2,487,520	-	246,421,398
Collection lines - donated	49,903,975	2,004,844	-	51,908,819
Motor equipment	4,245,410	1,076,799	125,494	5,196,715
Maintenance equipment	10,013,349	733,122	28,588	10,717,883
Office equipment	628,770	43,262	16,594	655,438
Office real estate	257,433	-	-	257,433
Maintenance facility	648,572	-	-	648,572
Joint lab building	939,994	-	-	939,994
Total depreciable	<u>310,571,381</u>	<u>6,345,547</u>	<u>170,676</u>	<u>316,746,252</u>
Total Capital Assets	<u>315,443,306</u>	<u>17,314,316</u>	<u>2,129,792</u>	<u>330,627,830</u>
Accumulated Depreciation				
Treatment plants, interceptor and collection lines	104,014,636	7,209,929	-	111,224,565
Collection lines - donated	25,187,109	1,825,359	-	27,012,468
Motor equipment	3,601,566	352,499	125,494	3,828,571
Maintenance equipment	8,216,107	754,911	28,588	8,942,430
Office equipment	575,153	25,368	16,594	583,927
Office real estate	173,632	7,155	-	180,787
Maintenance facility	388,841	13,068	-	401,909
Joint lab building	400,332	25,092	-	425,424
	<u>142,557,376</u>	<u>10,213,381</u>	<u>170,676</u>	<u>152,600,081</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 172,885,930</u>			<u>\$ 178,027,749</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$10,421,350 and \$10,213,381, respectively.

Interest costs incurred during the year ended June 30, 2019 and 2018 were \$6,605,578 and \$6,784,437, respectively. Interest capitalized for the year ended June 30, 2018 was \$231,664.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 - LONG-TERM DEBT

2019					
	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Due Within One Year
Bonds Payable					
General obligation bonds	\$ 42,027,000	\$ -	\$ (1,740,000)	\$ 40,287,000	\$ 1,085,000
Revenue bonds	115,045,000	-	(3,880,000)	111,165,000	3,485,000
State revolving fund loan	126,845	-	(55,586)	71,259	56,847
Less deferred amounts:					
Bond premium	7,550,140	-	(424,198)	7,125,942	-
	<u>\$ 164,748,985</u>	<u>\$ -</u>	<u>\$ (6,099,784)</u>	<u>\$ 158,649,201</u>	<u>\$ 4,626,847</u>

2018					
	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Bonds Payable					
General obligation bonds	\$ 43,712,000	\$ -	\$ (1,685,000)	\$ 42,027,000	\$ 1,040,000
Revenue bonds	118,770,000	-	(3,725,000)	115,045,000	3,880,000
State revolving fund loan	181,197	-	(54,352)	126,845	55,586
Less deferred amounts:					
Bond premium	7,974,338	-	(424,198)	7,550,140	-
	<u>\$ 170,637,535</u>	<u>\$ -</u>	<u>\$ (5,888,550)</u>	<u>\$ 164,748,985</u>	<u>\$ 4,975,586</u>

General Obligation Bonds

Bonds payable at June 30, 2019 and 2018 were comprised of the following issues:

	2019	2018
\$12,135,000 General Obligation Refunding Bonds, Series 2010, dated January 7, 2010. Annual maturities of \$115,000 to \$3.275 million maturing in 2025 with semi-annual interest of 2.00% to 4.00%. Bonds were issued to refund the 2001, 2002 and 2004 General Obligation Bonds.	\$ 12,020,000	\$ 12,020,000
\$9,480,000 General Obligation Refunding Bonds, Series 2011, dated April 14, 2011. Annual maturities of \$115,000 to \$920,000 maturing in 2025 with semi-annual interest of 2.00% to 4.00%. Bonds were issued to refund most of the Series 2002 General Obligation Bonds.	5,005,000	5,730,000
\$3,455,000 General Obligation Bonds, Series 2013, dated March 1, 2014. One lump sum principal payment due upon maturity in 2038 with semi-annual interest of 5.00%. Bonds were converted from the Series 2013B Refunding Revenue and Convertible Bonds.	3,455,000	3,455,000

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 - LONG-TERM DEBT - CONTINUED

General Obligation Bonds - Continued

	<u>2019</u>	<u>2018</u>
\$8,062,000 General Obligation Refunding Bonds, Series 2014, dated July 8, 2014. Annual maturities of \$655,000 to \$816,000 maturing in 2027 with semi-annual interest of 1.10%. Bonds were issued to defray the costs of District improvements.	5,352,000	6,052,000
\$15,325,000 General Obligation Bonds, Series 2016, dated August 30, 2016. Annual maturities of \$250,000 to \$765,000 maturing in 2046 with semi-annual interest of 2.00% to 4.00%. Bonds were issued to defray the costs of District improvements and pay off the Bond Anticipation Note.	14,455,000	14,770,000
	40,287,000	42,027,000
Less: current portion	(1,085,000)	(1,040,000)
Total long-term general obligation bonds payable	<u>\$ 39,202,000</u>	<u>\$ 40,987,000</u>

Debt service requirements to maturity including interest on the general obligation bonds as of June 30, 2019 are as follows:

Year Ending June 30	Principal	Interest	Total
2020	\$ 1,085,000	\$ 1,426,694	\$ 2,511,694
2021	1,850,000	1,364,429	3,214,429
2022	4,481,000	1,299,623	5,780,623
2023	5,007,000	1,131,765	6,138,765
2024	5,194,000	943,007	6,137,007
2025-2029	8,830,000	2,796,668	11,626,668
2030-2034	2,540,000	2,253,773	4,793,773
2035-2039	6,385,000	1,697,200	8,082,200
2040-2044	3,405,000	539,250	3,944,250
2045-2046	1,510,000	68,250	1,578,250
	<u>\$ 40,287,000</u>	<u>\$ 13,520,659</u>	<u>\$ 53,807,659</u>

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 - LONG-TERM DEBT - CONTINUED

Revenue Bonds

Bonds payable at June 30, 2019 and 2018 were comprised of the following issues:

	2019	2018
\$7,865,000 Sewer System Refunding Revenue Bonds Series 2009A, dated December 30, 2009. Maturities from 2014 to 2021 with semi-annual interest of 2.50% to 5.0%. Bonds issued to refund the outstanding 1999 Series A Refunding	\$ 2,435,000	\$ 3,585,000
\$21,265,000 Sewer System Refunding Convertible Bonds Series 2009B, dated December 30, 2009. Maturities from 2011 to 2022 and 2026 to 2028 with semi-annual interest of 2.50% to 5.0%. Bonds issued to refund the most of the outstanding 1999 Series B CIB and all the outstanding 1999 Series B CAB Refunding Revenue Bonds including the accreted interest.	12,595,000	13,860,000
\$10,260,000 Sewer System Taxable Revenue Bonds Series 2011, dated November 2, 2011. Maturities from 2016 to 2025 with semi-annual interest of 1.89% to 4.18%. Bonds issued to retire the outstanding Sewer System Revenue Bond Anticipation Note, Series 2010. In 2014, a portion of these bonds were partially refunded with the Sewer System	475,000	1,445,000
\$9,220,000 Sewer System Refunding Revenue and Convertible Bonds Series 2013A, dated April 3, 2013. Maturities from 2014 to 2040 with semi-annual interest of 1.00% to 4.00%. Bonds issued to retire the outstanding Sewer System Convertible Bonds, Series 2003A.	8,380,000	8,380,000
\$53,730,000 Sewer System Refunding Revenue and Convertible Bonds Series 2013B, dated April 3, 2013. Maturities from 2014 to 2038 with semi-annual interest of 1.00% to 5.00%. Bonds issued to retire the outstanding Sewer System Improvement and Refunding Convertible Bonds, Series 1999B and the outstanding Sewer System Convertible Bonds, Series 2003B. In 2013, converted \$3,455,000 to General	50,125,000	50,125,000
\$4,680,000 Sewer System Refunding Revenue Bonds, Series 2014A, dated December 4, 2014. Annual maturities of \$15,000 to \$295,000 maturing in 2040 with semi-annual interest of 2.00% to 5.00%. Bonds were issued to retire the outstanding Sewer System Revenue Bonds, Series 2005A.	4,195,000	4,320,000

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 - LONG-TERM DEBT - CONTINUED

	2019	2018
\$34,480,000 Sewer System Refunding Revenue Bonds, Series 2014B, dated December 4, 2014. Annual maturities of \$100,000 to \$8,685,000 maturing in 2040 with semi-annual interest of 2.00% to 5.00%. Bonds were issued to retire the outstanding Sewer System Revenue Bonds, Series 2005B.	32,960,000	33,330,000
	111,165,000	115,045,000
Less: current portion	(3,485,000)	(3,880,000)
Total long-term revenue bonds payable	\$ 107,680,000	\$ 111,165,000

State Revolving Fund Loan

\$626,900 South Carolina Water Quality Revolving Fund Authority Loan (State revolving fund loan) was assumed by the District with the transfer of the City of Spartanburg's sewer lines. The balance as of June 30, 2019 and 2018 was \$71,259 and \$126,845, respectively. The loan matures September 2020, with principal and interest payments quarterly of \$14,493 with an interest rate of 2.25%. In a separate agreement, the state revolving fund loan was given first lien bond status and deemed fully secured by the gross revenues of the District, same as the revenue bonds.

Debt service requirements to maturity including interest on the revenue bonds and the state revolving fund loan as of June 30, 2019 are as follows:

Year Ending June 30	Principal	Interest	Total
2020	\$ 3,541,847	\$ 4,978,322	\$ 8,520,169
2021	3,154,412	4,830,012	7,984,424
2022	805,000	4,678,131	5,483,131
2023	565,000	4,643,281	5,208,281
2024	585,000	4,626,331	5,211,331
2025-2029	21,300,000	21,668,538	42,968,538
2030-2034	32,965,000	15,230,900	48,195,900
2035-2039	38,485,000	6,841,188	45,326,188
2040	9,835,000	393,400	10,228,400
	\$ 111,236,259	\$ 67,890,103	\$ 179,126,362

NOTE 5 - CAPITAL CONTRIBUTIONS

Donated assets and/or grants provided to finance capital expenditures are accounted for as capital contributions. During the years ended June 30, 2019 and 2018, the District received the following as donated assets:

	2019	2018
Donated assets	\$ 1,983,221	\$ 2,004,843

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 6 - PENSION PLAN

Plan Description - The District, as the employer, participates in the South Carolina Retirement System (SCRS) Plan - a cost-sharing multiple-employer defined benefit pension plan administered and managed by the South Carolina Public Employee Benefit Authority (PEBA), a state agency. PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through 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, SC 29223.

Benefits Provided/Membership - SCRS provides retirement and other benefits for teachers and employees of the state, its public school districts, and political subdivisions. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. 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. Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary.

This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. 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.

An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member. 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 Class 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.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of 1% 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.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 6 - PENSION PLAN - CONTINUED

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, are insufficient to maintain the amortization period set in statute, the board shall increase employer contribution rates as necessary. After June 30, 2027, if the most recent actuarial valuation of the SCRS for funding purposes shows a ratio of the actuarial value of the system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 85%, then the board, effective the following July 1st, may decrease the current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85%. The Retirement System Funding Administration Act establishes a ceiling on employee contribution rates at 9%. The employer contribution rates will continue to increase annually by 1% 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. Required employee (both Class II and III) contribution rates for the years ended June 30, 2019 and 2018 was 9%. The required employer contribution rate for the years ended June 30, 2019 and 2018 was 14.41% and 13.41%, respectively. Both required employee and employer contribution rates are calculated on earnable compensation as defined by Title 9 of the South Carolina Code of Laws. Employers also contribute an additional .15% of earnable compensation, if participating in the death benefit program.

Contributions to the Plan from the District were \$501,643 and \$410,479, for the years ended June 30, 2019 and 2018, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2019, the District reported a net pension liability of \$7,082,022 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability, net pension liability and sensitivity information are based on an actuarial valuation performed as of July 1, 2017. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end June 30, 2018, using generally accepted actuarial procedures. The allocation of the District's proportionate shares of the collective net pension liability and pension expense were calculated on the basis of the District's contributions actually remitted to the plan relative to the total contributions remitted to the plan for all participating employers, less employer contributions that are not a representative of future contributions efforts, as of June 30, 2018. Based upon this information, the District's proportion of the collective net pension liability at June 30, 2019 and 2018 was .031607% and .033456%, respectively, a decrease of .00185% since June 30, 2017, the prior measurement date.

For the year ended June 30, 2019, the District recognized pension expense of \$536,354. The District also recognized revenue of \$33,654 as a result of a non-employer contribution from the State of South Carolina. The funds, approved by the General Assembly to help offset a portion of the burden of increased employer contributions, were sent directly to PEBA for the SCRS trust fund and represented 1% of the SCRS employer contribution increase for the year ended June 30, 2018. For the year ended June 30, 2018, the District recognized pension expense of \$703,160. At June 30, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to the pension as follows:

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 6 - PENSION PLAN - CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued

2019		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 12,784	\$ 398,085
Changes in assumptions	280,975	-
Net difference between projected and actual earnings on pension plan investments	112,498	-
District contributions subsequent to the measurement date	501,643	-
Total	<u>\$ 907,900</u>	<u>\$ 398,085</u>
2018		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 33,575	\$ 134,852
Changes in assumptions	440,888	-
Net difference between projected and actual earnings on pension plan investments	210,244	-
District contributions subsequent to the measurement date	410,479	-
Total	<u>\$ 1,095,186</u>	<u>\$ 134,852</u>

\$501,643 reported as deferred outflows of resources related to pensions in 2019 resulted from District contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Any 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 Ended June 30	
2020	\$ 145,766
2021	55,530
2022	(173,970)
2023	(19,154)
	<u>\$ 8,172</u>

Actuarial Assumptions - Actuarial valuations of the plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared to 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. An experience report on the System was most recently issued for the period ending July 1, 2015.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 6 - PENSION PLAN - CONTINUED

Actuarial Assumptions - Continued - The June 30, 2018 total pension liability, net pension liability, and sensitivity information determined by the July 1, 2017 valuation, used the following actuarial assumptions and methods:

Actuarial cost method	Entry age normal
Inflation	2.25%
Salary increases	3.0% to 12.5% (varies by service and includes 2.25% inflation)
Benefit adjustments	lesser of 1% or \$500 annually
Investment rate of return	7.25% (includes 2.25% inflation)

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), were 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 the 30 year capital market assumptions. The long-term expected rates of return 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. Expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation, and is summarized in the following table. For actuarial purposes, the 7.25% assumed annual investment rate of return used in the calculation of the total pension liability includes 5.00% real rate of return and a 2.25% inflation component.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	47%	3.38%
Real Assets	10%	0.42%
Opportunistic	13%	0.48%
Diversified Credit	18%	0.65%
Conservative Fixed Income	12%	0.10%
Total Expected Real Return	100%	5.03%
Inflation for Actuarial Purposes		2.25%
Total Expected Nominal Return		7.28%

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 actuarially determined rates based on the provisions of the South Carolina State Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 6 - PENSION PLAN - CONTINUED

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the collective net pension liability calculated using the discount rate of 7.25%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the collective net pension liability	\$ 9,049,509	7,082,022	\$ 5,675,457

Pension Plan Fiduciary Net Position - Detailed information regarding the fiduciary net position of the plan, administered by PEBA, is available in the Systems' audited financial statements for the fiscal year ended June 30, 2018 (including the unmodified opinion on the financial statements). Information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting. Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2018. The additional information is publicly available on PEBA's Retirement Benefits' website at www.peba.sc.gov.

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS

Plan Description

The District, through its substantive commitment to provide other post-employment benefits (OPEB), maintains an agent employer defined benefit plan to provide certain postretirement health care benefits. The plan provides health care and prescription drug coverage in the Group insurance plan; and upon becoming eligible for Medicare coverage, retirees are provided with Medicare supplement insurance which includes health care and prescription drug coverage. Participants must be eligible to retire under the SCRS with a minimum of 12 years of service to receive benefits. The District explicitly provides a portion of the cost of coverage for retirees and the retirees are required to pay a portion of the premiums which is determined each year. Retirees may continue dependent coverage (and pay the full premium for this coverage) if enrolled in dependent coverage at the time of retirement. Spouses age 65 or older may continue coverage by paying the total cost of coverage. Spouses are not covered for pre or post-65 retirees.

The District, upon majority vote of the seven member Commission, has the authority to establish and amend benefit provisions.

The Plan's assets are held in an irrevocable trust for the exclusive benefit of the Plan participants and are administered by the South Carolina Other Retirement Benefits Employer Trust (SCORBET). Each member shares in the SCORBET's administrative and investment related expenses. The SCORBET issues a publically available Comprehensive Annual Financial Report (CAFR). A copy of the CAFR may be obtained by submitting a request to Risk Management Services, Municipal Association of South Carolina, Post Office Box 12109, Columbia, SC 29211.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Plan Membership

Membership in the plan as of January 1, 2017, the date of the last actuarial valuation was :

Inactive plan members of beneficiaries receiving benefits	21
Active plan members	79
Total plan members	<u>100</u>

Contributions

The Plan is financed on a pay-as-you-go basis and through separate contributions to SCORBET based on the actuarially determined employer contribution. The SCORBET allows each member to choose a contribution amount into the trust based on the actuarially determined employer contribution. The District paid \$488,805 and \$447,206 in pay-as-you-go and SCORBET contributions for the years ended June 30, 2019 and 2018.

Net OPEB Liability

The District's net OPEB liability as of June 30, 2019 and 2018 of \$3,951,875 and \$3,971,065, respectively was measured as of December 31, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability as of June 30, 2019 and 2018 was determined by an actuarial valuation date of January 1, 2017.

Actuarial assumptions and other inputs - the Total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	3.00%-7.00%, including wage inflation of 3.00%
Investment rate of return	4.75%, net of OPEB plan investment expense, including price inflation
Municipal bond index rate	3.55%
Single equivalent interest rate	4.75%
Health care cost rates	
Pre-medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023
Medicare	5.50% for 2016 decreasing to an ultimate rate of 5.00% by 2020
Discount rate	Based upon the long-term expected rate of return

Mortality rates were based on the RP-2014 Mortality Table for Employees with a 95% multiplier to better reflect anticipated experience and provide a margin for future improvements.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the January 1, 2017 valuation were based on the 2016 experience study adopted by the SCRS pension plan. The experience report on the SCRS was most recently issued as of July 1, 2015, and are required to be completed at least once in each five-year period by S.C. state statute. The remaining actuarial assumptions (e.g., initial per capita costs, health care costs trends, rate of plan participation, rates of plan election, etc.) used in the January 1, 2017 valuation were based on a review of recent plan experience done concurrently with the January 1, 2017 valuation.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Net OPEB Liability - Continued

Actuarial assumptions and other inputs - continued - Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) and developed by the investment consultant for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant may cover a shorter investment horizon and may not be useful in setting the long-term rate of return for funding OPEB plans which are likely to cover a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation adjustment, or a fundamental change in the market that alters expected returns in future years. The target asset allocation for each major asset class, as provided by the plan, are summarized in the following table:

Fixed income	94.30%
Cash and cash equivalents	5.70%
	<u>100.00%</u>

Discount rate - the discount rate used to measure the total OPEB liability was 4.75%. The projection of cash flows used to determine the discount rate assumed that total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annually using the payroll growth assumptions; active employees do not explicitly contribute to the plan; the District continues to contribute the full actuarially determined employer contribution through deposit to the SCORBET and direct payment of benefits to the plan members as the benefits come due; projected assets do not include employer contributions that fund estimated service costs of future employees; and cash flows occur mid-year. Based on those assumptions, the plan's fiduciary net position was projected to not be depleted.

Changes in the Net OPEB Liability

The total OPEB liability (TOL) is based upon the actuarial valuation performed as of the January 1, 2017 valuation date. An expected TOL as of December 31, 2018 for the year ending 2019 is determined using standard roll back techniques. An expected TOL is determined as of December 31, 2017 for the year ending 2018 using standard roll forward techniques. The roll forward calculation begins with the TOL, as of January 1, 2017, subtracts the expected benefit payments for the year, applies interest at the discount rate for the year, and then adds the annual normal cost (also called the service cost). The procedure used to determine the TOL, as of December 31, 2018 and 2017, is shown in the following table:

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Changes in the Net OPEB Liability – Continued

2019			
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c)
Balance as of December 31, 2017	\$ 6,195,143	\$ 2,224,078	\$ 3,971,065
Changes for the Year			
Service cost	216,360	-	216,360
Interest	290,060	-	290,060
Difference between expected and actual experience	(24,263)	-	(24,263)
Contributions - employer	-	468,293	(468,293)
Net investment income	-	33,054	(33,054)
Benefit payments	(179,293)	(179,293)	-
Net Changes	302,864	322,054	(19,190)
Balance as of December 31, 2018	<u>\$ 6,498,007</u>	<u>\$ 2,546,132</u>	<u>\$ 3,951,875</u>
2018			
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c)
Balance as of December 31, 2016	\$ 5,879,321	\$ 1,906,645	\$ 3,972,676
Changes for the Year			
Service cost	210,058	-	210,058
Interest	277,159	-	277,159
Difference between expected and actual experience	(81,564)	-	(81,564)
Contributions - employer	-	369,831	(369,831)
Net investment income	-	54,351	(54,351)
Benefit payments	(89,831)	(89,831)	-
Plan administrative expenses	-	(16,918)	16,918
Net Changes	315,822	317,433	(1,611)
Balance as of December 31, 2017	<u>\$ 6,195,143</u>	<u>\$ 2,224,078</u>	<u>\$ 3,971,065</u>

Sensitivity of the net OPEB liability to changes in the discount rate - the following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate 1.0% lower or 1.0% higher than the current discount rate:

Discount Rate Sensitivity			
	1% Decrease 3.75%	Discount Rate 4.75%	1% Increase 5.75%
Net OPEB Liability	\$ 5,173,319	\$ 3,951,875	\$ 2,986,622

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Sensitivity of the net OPEB liability to changes in the health care cost trend rates - the following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using health care cost trend rates that are 1.0% lower or 1.0% higher than the current health care cost trend rates:

Health Care Cost Trend Rate Sensitivity			
	1%		1%
	Decrease	Current	Increase
Net OPEB Liability	\$ 2,769,744	\$ 3,951,875	\$ 5,516,704

OPEB plan fiduciary net position - detailed information about the OPEB plan's fiduciary net position is available in a separately issued SCORBET financial report prepared using the economic resources measurement focus and the accrual basis of accounting. The report may be obtained in writing to Risk Management Services, Municipal Association of South Carolina, Post Office Box 12109, Columbia, South Carolina 29211.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended June 30, 2019 and 2018, the District recognized OPEB expense of \$343,695 and \$352,262, respectively. At June 30, 2019 and 2018, the District reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

2019		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 84,362
Net difference between projected and actual earnings on plan investments	88,934	-
District contributions subsequent to the measurement date	418,234	-
	<u>\$ 507,168</u>	<u>\$ 84,362</u>
2018		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 72,221
Net difference between projected and actual earnings on plan investments	33,913	-
District contributions subsequent to the measurement date	405,765	-
	<u>\$ 439,678</u>	<u>\$ 72,221</u>

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - Continued

\$418,234 reported as deferred outflows of resources related to OPEB in 2019, resulted from District contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Measurement Period Ended December 31:		
2019	\$	12,231
2020		12,231
2021		12,232
2022		3,752
2023		(12,122)
Thereafter		(23,752)
	\$	<u>4,572</u>

NOTE 8 - DEFERRED COMPENSATION PLANS

Two deferred compensation plans are available to District employees. The multiple-employer plans, created under Internal Revenue Code Sections 401(k) and 457 are administered and accounted for by the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate employment. With approval of the State's Deferred Compensation Commission, employees may also withdraw the current value of their contributions prior to termination of employment if they meet certain requirements. These requirements differ between the two plans. The plans, available to all District employees, permit them to defer a portion of their salary until future years. Participation in the plans is optional and participants elect how their salary deferrals are invested.

Compensation deferred under the Section 401(k) and 457 plans is placed in trust for the contributing employees. Neither the State nor the District has any liability for losses under the plan.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District is insured under policies through the South Carolina Office of Insurance Services, South Carolina Reserve Fund (IRF), a public entity risk pool, which issues policies to assume those risks of loss, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses the District is exposed to, related to the following assets, activities, and/or events:

1. Real property, its contents, and other equipment.
2. Motor vehicles.
3. General tort claims.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 9 - RISK MANAGEMENT - CONTINUED

The IRF purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. The IRF's rates are determined actuarially.

The District did not have settled claims that exceeded the District's insurance coverage in any of the past three years.

The District provides employee health care under a self-funded insurance program. A commercial insurance company provides aggregate stop loss coverage for claims in excess of \$4,437,858 including Spartanburg Water System and specific stop loss coverage for each claim in excess of \$95,000. The following represents the change in unfilled, unpaid claims from July 1, 2018 to June 30, 2019 and July 1, 2017 to June 30, 2018:

	2019	2018
Beginning of year liability	\$ 29,927	\$ 67,279
Claims	1,148,740	621,094
Claims payments	<u>(1,102,975)</u>	<u>(658,446)</u>
End of year liability	<u>\$ 75,692</u>	<u>\$ 29,927</u>

The liability is included in accrued employee benefits on the Statements of Net Position.

NOTE 10 - RELATED PARTY TRANSACTIONS

The Spartanburg Water System provides billing, collection, fleet, engineering and labor services as well as other administrative functions for the District. The amounts paid to Spartanburg Water System for all services were as follows:

	2019	2018
Billing and collection fees	\$ 611,460	\$ 613,452
Administrative fees	1,019,832	987,636
Labor reimbursements	599,870	560,921
Water quality and maintenance facility	220,428	166,018
Fleet service fees	131,968	138,161
Engineering	755,413	528,899
Operations fee	<u>136,551</u>	<u>194,208</u>
	<u>\$ 3,475,522</u>	<u>\$ 3,189,295</u>

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 10 - RELATED PARTY TRANSACTIONS - CONTINUED

The following amounts were due from (to) Spartanburg Water System at June 30, 2019 and 2018:

	2019	2018
User charges collected	\$ 1,792,577	\$ 1,781,973
Other receivables	406,748	492,270
Miscellaneous payable	(943,839)	(895,852)
	<u>\$ 1,255,486</u>	<u>\$ 1,378,391</u>

The District with the Spartanburg Water System jointly owns an office building on North Liberty Street in downtown Spartanburg, South Carolina. The facility provides offices for the engineering and other support service departments that serve both organizations. The District owns an undivided interest of the office building. At June 30, 2019 and 2018, the District's share is included in capital assets with a cost of \$257,433 and accumulated depreciation of \$187,943 and \$180,787, respectively.

The District also jointly owns with the Spartanburg Water System approximately 42 acres on Highway 295 by-pass in Spartanburg County for future additional space requirements and facilities to accommodate a maintenance shop and personnel involved in maintenance activities. At June 30, 2019 and 2018, the District's share is included in capital assets with a cost of \$648,572 and accumulated depreciation of \$414,976 and \$401,909, respectively.

The District additionally with the Spartanburg Water System jointly owns a laboratory building on Highway 295 by-pass in Spartanburg County. The facility provides offices and laboratories for the industrial wastewater, backflow prevention and water quality services. At June 30, 2019 and 2018, the District's share is included in capital assets with a cost of \$939,994 and accumulated depreciation of \$450,516 and \$425,424, respectively.

NOTE 11 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES AND COMMITMENTS

Sick Pay

As described more fully in Note 1, no estimate of any potential liability has been made.

Unemployment Compensation

The District is required to pay unemployment compensation on covered employees. It has chosen the alternative of paying claims as billed by the South Carolina Employment Security Commission. However, under this method of funding, no accurate estimate of any potential liability has been made.

Federal and State Assisted Programs

The District has received proceeds from federal and state grants, and/or entitlements. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 11 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES AND COMMITMENTS -
CONTINUED

Underground Storage Tanks

The District has underground storage tanks that are subject to federal and state regulations concerning cleanup costs and third party liability claims. The District has 24 hour a day monitoring systems installed on all storage tanks. However, the District is not insured in the event that a leak should occur, and no estimate of potential liability, if any, has been made in the accompanying financial statements.

Construction Commitments

Outstanding commitments on construction contracts totaled \$833,382 and \$1,099,480 at June 30, 2019 and 2018, respectively.

Arbitrage Rebate Liabilities

Arbitrage represents the difference or "spread" between lower interest rates on tax-exempt government securities and the higher interest on taxable investment securities. The Internal Revenue Code requires local governments to rebate arbitrage earnings to the federal government every five years for as long as the local government has tax-exempt bonds outstanding. The District does not believe an estimate of potential liability, if any, is required in the accompanying financial statements.

NOTE 12 - TAX ABATEMENTS

The District's property tax revenues were reduced by \$581,398 and \$530,915 under Fee in Lieu of Ad Valorem Tax (FILOT) agreements and Special Source Revenue Credits (SSRC) entered into by Spartanburg County for the years ended June 30, 2019 and 2018, respectively. The District received a total of \$477,081 and \$433,816 under both FILOT and SSRC tax agreements for the years ended June 30, 2019 and 2018, respectively. Under the FILOT agreements, taxpayers receive a reduction in ad valorem property taxes through reduced assessed valued and locked millage rates. Due to these agreements, the taxpayers realized a benefit of \$426,419 and \$473,666, respectively. Under the SSRC program, taxpayers receive a percentage reduction off their total property tax bill if their property qualified for the program. Due to this program, the taxpayers realized a benefit of \$154,979 and \$57,249, respectively.

NOTE 13 - RECLASSIFICATIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 14 - PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT

The District has restated its previously issued financial statements for the year ended June 30, 2018 for matters relating to the following previously reported items: capital assets – net of accumulated depreciation and depreciation expense due to calculation errors during software conversion. The accompanying financial statements for 2018 have been restated to reflect the correction that resulted in an increase in net position of \$674,355. The District also reclassified a portion of net position that is restricted for debt service reserves that was originally included in net investment in capital assets of \$4,206,144, which has no effect on total net position. The effect on the previously issued 2018 financial statements is summarized as follows:

	Previously Reported	Increase (Decrease)	Restated
Statements of Net Position			
Capital assets - net of accumulated depreciation	\$ 163,471,816	\$ 674,355	\$ 164,146,171
Total noncurrent assets	194,141,782	674,355	194,816,137
Total assets	223,706,210	674,355	224,380,565
Net investment in capital assets	40,568,904	(3,531,789)	37,037,115
Unrestricted	8,586,209	4,206,144	12,792,353
Total net position	49,155,113	674,355	49,829,468
Statements of Revenues, Expenses and Changes in Net Position			
Depreciation expense	10,887,736	(674,355)	10,213,381
Total operating expenses	25,389,410	(674,355)	24,715,055
Operating Income	729,512	674,355	1,403,867
Increase in net position			
before capital contributions	1,442,496	674,355	2,116,851
Increase in net position	3,447,339	674,355	4,121,694
Net Position - End of Year	49,155,113	674,355	49,829,468
Statements of Cash Flows			
Reconciliation of operating income to net cash			
provided operating activities:			
Operating income	729,512	674,355	1,403,867
Depreciation expense	10,887,736	(674,355)	10,213,381

For the fiscal year ending June 30, 2018, the District restated beginning net position to capitalize interest expense to construction in progress resulting in an increase in beginning net position of \$56,431. Furthermore, the District adopted Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation required the District to record beginning net OPEB liability and contributions made subsequent to the measurement date as deferred outflows of resources and remove the net OPEB asset as required by GASB Statement 45. Beginning 2018 net position was restated as follows:

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 14 - PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT
- CONTINUED

	2018
Net Position - Beginning of Year	\$ 49,341,326
Capitalization of Interest Expense	56,431
Removal of the Net OPEB Asset (GASB 45)	(32,872)
Implementation of GASB Statement 75 - Net OPEB Liability	(3,972,676)
Implementation of GASB Statement 75 - Deferred Outflows Related to OPEB	315,565
	<hr/>
Net Position - Beginning of Year - Restated	\$ 45,707,774
	<hr/>

NOTE 15 – SUBSEQUENT EVENTS

In August 2019, the District entered into an asset purchase agreement with Moore Sewer, Inc. for the purchase of Moore Sewer, Inc.'s assets and assumed liabilities for \$155,000.

In November 2019, the District offered \$7,635,000 of Sewer System Refunding Revenue Bonds, Series 2019 for the purpose of refunding the outstanding Sewer System Refunding Convertible Bonds, Series 2009B that are expected to close in December 2019.

Also, in November 2019, the District offered \$10,795,000 of General Obligation Refunding Bonds, Series 2019 for the purpose of refunding the outstanding General Obligation Refunding Bonds, Series 2010 that are expected to close in December 2019.

REQUIRED SUPPLEMENTARY INFORMATION

SPARTANBURG SANITARY SEWER DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE COLLECTIVE NET PENSION LIABILITY
SOUTH CAROLINA RETIREMENT SYSTEM
LAST TEN FISCAL YEARS*

	2019	2018	2017	2016	2015
District's Proportion of the Collective Net Pension Liability	0.031607%	0.033456%	0.034070%	0.034171%	0.034769%
District's Proportionate Share of the Collective Net Pension Liability	\$ 7,082,022	\$ 7,531,484	\$ 7,277,302	\$ 6,480,695	\$ 5,986,069
District's Covered Payroll	\$ 3,275,319	\$ 3,375,640	\$ 3,299,241	\$ 3,203,928	\$ 3,156,544
District's Proportionate Share of the Collective Net Pension Liability as a Percentage of its Covered Payroll	216.22%	223.11%	220.58%	202.27%	189.64%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.10%	53.34%	52.91%	56.99%	59.92%

*The amounts presented were determined as of the prior fiscal years ending June 30.

SPARTANBURG SANITARY SEWER DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

	2019	2018	2017	2016	2015
Statutorily Required Contributions	\$ 501,643	\$ 410,479	\$ 390,224	\$ 364,896	\$ 344,422
Contributions in Relation to the Statutorily Required Contributions	501,643	410,479	390,224	364,896	344,422
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 3,445,353	\$ 3,275,319	\$ 3,375,640	\$ 3,299,241	\$ 3,203,928
Contributions as a Percentage of Covered Payroll	14.56%	12.53%	11.56%	11.06%	10.75%

Notes to Schedules:

June 30, 2015 was the first year of GASB 68 implementation, therefore 10-year data is not yet available.

SPARTANBURG SANITARY SEWER DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS ENDED JUNE 30

	2019	2018
Total OPEB Liability		
Service cost	\$ 216,360	\$ 210,058
Interest on total OPEB liability	290,060	277,159
Difference between expected and actual experience	(24,263)	(81,564)
Benefit payments	(179,293)	(89,831)
Net Change in Total OPEB Liability	302,864	315,822
Total OPEB Liability - Beginning of Year	6,195,143	5,879,321
Total OPEB Liability - End of Year (a)	<u>\$ 6,498,007</u>	<u>\$ 6,195,143</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 468,293	\$ 369,831
Net investment income	33,054	54,351
Benefit payments	(179,293)	(89,831)
Administrative expenses	-	(16,918)
Net Change in Plan Fiduciary Net Position	322,054	317,433
Plan Fiduciary Net Position - Beginning of Year	2,224,078	1,906,645
Plan Fiduciary Net Position - End of Year (b)	<u>\$ 2,546,132</u>	<u>\$ 2,224,078</u>
Net OPEB Liability - Ending (a-b)	<u>\$ 3,951,875</u>	<u>\$ 3,971,065</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	39.18%	35.90%
Covered Payroll	\$ 3,299,959	\$ 3,299,959
Net OPEB Liability as a Percentage of Covered Payroll	119.76%	120.34%

Notes to Schedule:

June 30, 2018 was the first year of GASB 75 implementation, therefore 10-year data is not yet available.

SPARTANBURG SANITARY SEWER DISTRICT
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
LAST TEN FISCAL YEARS ENDING JUNE 30

	2019	2018
Actuarially Determined Contribution (ADC)	\$ 408,947	\$ 364,489
Contributions in Relation to the ADC	488,805	447,207
Annual Contribution Deficiency (Excess)	<u>\$ (79,858)</u>	<u>\$ (82,718)</u>
Covered Payroll	\$ 3,299,959	\$ 3,299,959
Actual Contributions as a Percentage of Covered Payroll	14.81%	13.55%

Notes to Schedule:

Valuation Date January 1, 2017

Methods and Assumptions Used to Determine Contributions Rates:

Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay, closed
Amortization Period	21 years
Asset Valuation Method	5-year smoothed market value, 80%-120% corridor
Inflation	2.25%
Healthcare Cost Trend Rates	
Pre-medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023
Medicare	5.50% for 2016 decreasing to an ultimate rate of 5.00% by 2020
Salary Increases	3.00%-7.00%, including wage inflation of 3.00%
Investment Rate of Return	4.75%, net of OPEB plan investment expense, including price inflation
Participation Rates	The assumed annual rates of plan participation and spouse coverage were 90% and 15%, respectively.
Demographic Assumptions	Based on the 2016 experience study adopted for the SCRS pension plan.
Mortality	Based on the RP-2014 Mortality Table for Employees with a 95% multiplier to better reflect anticipated experience and provide a margin for future improvements.

June 30, 2018 was the first year of GASB 75 implementation, therefore 10-year data is not yet available.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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[Date of Delivery]

Spartanburg Sanitary Sewer District, South Carolina
Spartanburg, South Carolina

Re: \$46,200,000 Spartanburg Sanitary Sewer District, South Carolina Taxable Sewer System Refunding
Revenue Bonds, Series 2020

Ladies and Gentlemen:

We have acted as Bond Counsel to Spartanburg Sanitary Sewer District, South Carolina (the “**District**”) in connection with the issuance by the District of its \$46,200,000 Taxable Sewer System Refunding Revenue Bonds, Series 2020 (the “**Series 2020 Bonds**”). The Series 2020 Bonds are issued by the District pursuant to a Bond Resolution (the “**Bond Resolution**”), duly adopted by the Spartanburg Sanitary Sewer District Commission (the “**Commission**”), the governing body of the District, on April 27, 1999 as amended, and a Series Resolution (the “**Series Resolution**” and together with the Bond Resolution, the “**Resolutions**”) duly adopted by the Commission on February 25, 2020 and under and in full compliance with the Constitution and statutes of the State of South Carolina (the “**State**”), including particularly Title 6, Chapter 17, Code of Laws of South Carolina, 1976, as amended, and Act No. 1503 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina for the year 1970, as amended, in order to obtain funds which will be used, together with other funds of the District, to (a) refund certain of the District’s outstanding bonds and (b) pay certain costs and expenses relating to the issuance of the Series 2020 Bonds.

In these regards, we have examined a certified copy of the Transcript of Proceedings and other proofs submitted to us, including the Constitution and statutes of the State. As to questions of fact material to our opinion, we have relied upon the Transcript of Proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The Series 2020 Bonds are issued in registered, book-entry form, and are dated as of the date of original delivery thereof. The Series 2020 Bonds bear interest payable initially on September 1, 2020, and semiannually thereafter on the March 1 and September 1, and at the respective interest rates per annum, set forth in the Official Statement dated April 23, 2020 (the “**Official Statement**”) with respect to the Series 2020 Bonds. The Series 2020 Bonds mature on March 1 of the years, in the respective principal amounts, as set forth in the Official Statement.

The Series 2020 Bonds are numbered numerically in such fashion as to maintain a proper record thereof. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolutions. Additional bonds on a parity with the Series 2020 Bonds may be issued under the conditions prescribed in the Bond Resolution.

Based upon the foregoing, we are as of the date hereof, of the opinion that under existing law:

1. The District is a duly created and validly existing body corporate and politic and a political subdivision of the State.
2. The District, through the Commission, has the right and power to own and operate its sewer system (the “**System**”). The Commission is duly authorized to adopt the Resolutions. The Resolutions are in full force and effect and are valid, binding and enforceable in accordance with their terms, except to the extent that the enforceability thereof may be limited as described below.
3. The Series 2020 Bonds have been duly authorized and delivered and are enforceable in accordance with their terms and the terms of the Resolutions, and constitute valid and binding special obligations of the District, except to the extent that the enforceability of the Series 2020 Bonds may be limited as described below. The Series 2020 Bonds are secured in the manner and to the extent prescribed by the Resolutions and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements set forth therein.

4. Both the principal and interest on the Series 2020 Bonds are payable solely from the Gross Revenues of the System and are secured by a pledge of and lien upon the Gross Revenues, as provided in the Resolutions. The pledge of and lien upon the Gross Revenues granted under the Resolutions to secure the payment of the principal of and interest on the Series 2020 Bonds have priority over all pledges and liens heretofore or hereafter made and given, except the pledges and liens securing the outstanding maturities of the following obligations of the District, which shall be on a parity in all respects with the pledge and lien securing the Series 2020 Bonds: (a) the Series 2013A Bonds, the Series 2013B Bonds, the Series 2014A Bonds, the Series 2014B Bonds and the Series 2019 Bonds; and (b) any additional parity bonds, if such additional parity bonds are issued in the manner and under the conditions prescribed by the Resolutions. Neither the principal of nor the interest on the Series 2020 Bonds constitutes an indebtedness of the District, within the meaning of any provision, limitation or restriction of the Constitution or statutes of the State (other than those provisions authorizing indebtedness payable solely from a revenue-producing project not involving revenues from any tax or license), nor a charge, lien or encumbrance, legal or equitable, upon any property of the District or upon any income, receipts or revenues of the District save and except the pledge of and lien upon the Gross Revenues of the System, and neither the credit nor the taxing power of the District is pledged therefor.

5. Interest on the Series 2020 Bonds will not be excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended.

6. The Series 2020 Bonds and the interest thereon are exempt from all State, county, school district, municipal and other taxes or assessments of the State, except inheritance, estate, transfer or certain franchise taxes. It should be noted, however, that Section 12-11-20, Code of Laws of South Carolina, 1976, as amended, imposes upon every bank engaged in business in the State a fee or franchise tax computed on the entire net income of such bank which includes interest paid on the Series 2020 Bonds.

It is to be understood that the obligations of the District under the Series 2020 Bonds and the Resolutions, and the enforceability thereof, may be subject to judicial discretion, the valid exercise of the sovereign police powers of the State and of the constitutional powers of the United States of America, and applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights.

As Bond Counsel to the District, we have been retained solely for the purpose of examining the validity and legality of the Series 2020 Bonds and of rendering certain specific opinions herein stated and for no other purpose. We have not verified the accuracy, completeness or fairness of any representations or information concerning the business or financial condition of the District or the System in connection with the sale of the Series 2020 Bonds, including any information set forth as to the same in the Official Statement, or appendices thereto, pertaining to the Series 2020 Bonds. Accordingly, we express no opinion on the completeness, fairness or adequacy of any such representation or information.

We express no opinion herein regarding the accuracy, adequacy or completeness of the Official Statement or regarding the perfection of the pledge of or lien upon the Gross Revenues or other funds created under the Resolutions (or any other document or instrument mentioned herein). This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur. Our advice did not include financial or non-legal advice.

Very truly yours,

HAYNSWORTH SINKLER BOYD, P.A.

APPENDIX E

FORM OF DISCLOSURE DISSEMINATION AGENT AGREEMENT

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DISCLOSURE DISSEMINATION AGENT AGREEMENT

This Disclosure Dissemination Agent Agreement (the “Disclosure Agreement”), dated as of May 28, 2020, is executed and delivered by Spartanburg Sanitary Sewer District, South Carolina (the “Issuer”) and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the “Disclosure Dissemination Agent” or “DAC”) for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to assist the Issuer in processing certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the Issuer through use of the DAC system and do not constitute “advice” within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”). DAC will not provide any advice or recommendation to the Issuer or anyone on the Issuer’s behalf regarding the “issuance of municipal securities” or any “municipal financial product” as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary. DAC is not a “Municipal Advisor” as such term is defined in Section 15B of the Securities Exchange Act of 1934, as amended, and related rules.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

“Annual Filing Date” means the date, set in Sections 2(a) and 2(f) hereof, by which the Annual Report is to be filed with the MSRB.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Annual Report” means an Annual Report containing Annual Financial Information described in and consistent with Section 3 of this Disclosure Agreement.

“Audited Financial Statements” means the annual financial statements of the Issuer for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i)(B) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Issuer and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Issuer pursuant to Section 9 hereof.

“Disclosure Representative” means the Chief Financial Officer or his or her designee, or such other person as the Issuer shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Failure to File Event” means the Issuer’s failure to file an Annual Report on or before the Annual Filing Date.

“Financial Obligation” means (i) a debt obligation; (ii) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of either (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Force Majeure Event” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

“Holder” means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

“Information” means, collectively, the Annual Reports, the Audited Financial Statements, the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

“MSRB” means the Municipal Securities Rulemaking Board, or any successor thereto, established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

“Notice Event” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

“Obligated Person” means any person, including the Issuer, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

“Official Statement” means that Official Statement prepared by the Issuer in connection with the Series 2020 Bonds, as listed in Exhibit A.

“Trustee” means the institution, if any, identified as such in the document under which the Series 2020 Bonds were issued.

“Voluntary Event Disclosure” means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(11) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

“Voluntary Financial Disclosure” means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual Reports.

(a) The Issuer shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than the end of the seventh month following the end of each fiscal year of the Issuer (currently, June 30), commencing with the fiscal year ending June 30, 2020. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Issuer of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Issuer will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 10:00 a.m. Eastern time on Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the Issuer are prepared but not available prior to the Annual Filing Date, the Issuer shall, when the Audited Financial Statements are available, provide at such time an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, if any, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

- (i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;
- (ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) hereof with the MSRB;
- (iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) hereof with the MSRB;
- (iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) hereof with the MSRB, identifying the Notice Event as instructed by the Issuer pursuant to Section 4(a) or 4(b)(ii) hereof (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

- 1. "Principal and interest payment delinquencies;"
- 2. "Non-Payment related defaults, if material;"
- 3. "Unscheduled draws on debt service reserves reflecting financial difficulties;"
- 4. "Unscheduled draws on credit enhancements reflecting financial difficulties;"
- 5. "Substitution of credit or liquidity providers, or their failure to perform;"
- 6. "Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;"
- 7. "Modifications to rights of securities holders, if material;"
- 8. "Bond calls, if material, and tender offers;"
- 9. "Defeasances;"
- 10. "Release, substitution, or sale of property securing repayment of the Bonds, if material;"
- 11. "Rating changes;"
- 12. "Bankruptcy, insolvency, receivership or similar event of the obligated person;"
- 13. "Consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an

action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;”

14. “Appointment of a successor or additional trustee, or the change of name of a trustee, if material;”
15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material;” or
16. “Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.”

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as “Failure to provide annual financial information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) hereof with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Issuer pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. “amendment to continuing disclosure undertaking;”
2. “change in obligated person;”
3. “notice to investors pursuant to bond documents;”
4. “certain communications from the Internal Revenue Service;” other than those communications included in the Rule;
5. “secondary market purchases;”
6. “bid for auction rate or other securities;”
7. “capital or other financing plan;”
8. “litigation/enforcement action;”
9. “change of tender agent, remarketing agent, or other on-going party;”
10. “derivative or other similar transaction;” and
11. “other event-based disclosures;”

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) hereof with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Issuer pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:

1. “quarterly/monthly financial information;”
2. “Timing of annual disclosure (120/150 days);”
3. “change in fiscal year/timing of annual disclosure;”
4. “change in accounting standard;”
5. “interim/additional financial information/operating data;”
6. “budget;”
7. “investment/debt/financial policy;”
8. “information provided to rating agency, credit/liquidity provider or other third party;”
9. “consultant reports;” and
10. “other financial/operating data.”

(viii) provide the Issuer evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Issuer may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Anything in this Disclosure Agreement to the contrary notwithstanding, any Information received by the Disclosure Dissemination Agent before 10:00 a.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the Issuer, including:

1. The largest customers of the Issuer for the preceding fiscal year as shown under the heading “THE SEWER SYSTEM – Largest Customers.”
2. The number of customers of the Issuer for the preceding fiscal year as shown in under the heading “THE SEWER SYSTEM – Number of Customers.”
3. The demand for wastewater treated by the Issuer for the preceding calendar year (i.e., for the fiscal year ending June 30, 2020, the information will be for the calendar year ending December 31, 2019) as shown under the heading “THE SEWER SYSTEM – Sewer Usage.”
4. The user charge schedule (including the base charge and the volume charge) for the Issuer as of the end of the preceding fiscal year as shown under the heading “THE SEWER SYSTEM – User Charge.”
5. The capacity fee schedule for the Issuer as of the end of the preceding fiscal year as shown under the heading “THE SEWER SYSTEM – Capacity Fee.”

Audited Financial Statements as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then unaudited financial statements, prepared in accordance with GAAP as described in the Official Statement will be included in the Annual Report. In such event, Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the Issuer is an “obligated person” (as defined by the Rule), which have been previously filed with the Securities and Exchange Commission or available on the MSRB Internet Website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer will clearly identify each such document so incorporated by reference.

If the Annual Financial Information contains modified operating data or financial information different from the Annual Financial Information agreed to in the continuing disclosure undertaking related to the Bonds, the Issuer is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other

- material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- 7. Modifications to rights of Bond holders, if material;
- 8. Bond calls, if material, and tender offers;
- 9. Defeasances;
- 10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
- 11. Rating changes;
- 12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

Note to subsection (a)(12) of this Section 4: For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

- 13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- 14. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- 15. Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material; or
- 16. Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the Issuer, any of which reflect financial difficulties.

The Issuer shall, in a timely manner not later than nine (9) business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Issuer or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Issuer determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that either (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall

promptly file a notice of such occurrence with MSRB in accordance with Section 2 (e)(iv) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

SECTION 5. CUSIP Numbers. The Issuer will provide the Dissemination Agent with the CUSIP numbers for (i) new bonds at such time as they are issued or become subject to the Rule and (ii) any Bonds to which new CUSIP numbers are assigned in substitution for the CUSIP numbers previously assigned to such Bonds.

SECTION 6. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The Issuer acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filing.

(a) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Issuer may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the Issuer desires to make, contain the written authorization of the Issuer for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Issuer desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Issuer as prescribed in this Section 7(b) hereof to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

The parties hereto acknowledge that the Issuer is not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in addition to that required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 8. Termination of Reporting Obligation. The obligations of the Issuer and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Issuer is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of counsel expert in federal securities laws to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The Issuer has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Issuer may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Issuer or DAC, the Issuer agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Issuer shall remain liable to the Disclosure Dissemination Agent until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Issuer.

SECTION 10. Remedies in Event of Default. In the event of a failure of the Issuer or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Issuer has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Issuer and shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Issuer's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Issuer has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the Issuer at all times.

The obligations of the Issuer under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Issuer.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Issuer or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the

provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Issuer. No such amendment shall become effective if the Issuer shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Trustee, if any, for the Bonds, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of South Carolina (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent and the Issuer have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as
Disclosure Dissemination Agent

By: _____

Name: _____

Title: _____

SPARTANBURG SANITARY SEWER DISTRICT,
SOUTH CAROLINA, as Issuer

By: _____

Its: Chairman
Spartanburg Sanitary Sewer District Commission

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

Name of Issuer: Spartanburg Sanitary Sewer District, South Carolina
Name of Bond Issue: \$46,200,000 Taxable Sewer System Refunding Revenue Bonds, Series 2020
Date of Issuance: May 28, 2020
Date of Official Statement: April 23, 2020
CUSIP Numbers:

<u>Due</u> <u>March 1</u>	<u>CUSIP</u>
2021	847175 LYO
2022	847175 LZ7
2023	847175 MA1
2024	847175 MB9
2025	847175 MC7
2026	847175 MD5
2027	847175 ME3
2028	847175 MF0
2029	847175 MG8
2030	847175 MH6
2031	847175 MJ2
2032	847175 MK9
2033	847175 ML7
2034	847175 MM5
2035	847175 MN3
2037	847175 MP8

EXHIBIT B

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Issuer: Spartanburg Sanitary Sewer District, South Carolina
Name of Bond Issue: \$46,200,000 Taxable Sewer System Refunding Revenue Bonds, Series 2020
Date of Issuance: May 28, 2020
Date of Official Statement:: April 23, 2020
CUSIP Numbers:

<u>Due</u> <u>March 1</u>	<u>CUSIP</u>
2021	847175 LYO
2022	847175 LZ7
2023	847175 MA1
2024	847175 MB9
2025	847175 MC7
2026	847175 MD5
2027	847175 ME3
2028	847175 MF0
2029	847175 MG8
2030	847175 MH6
2031	847175 MJ2
2032	847175 MK9
2033	847175 ML7
2034	847175 MM5
2035	847175 MN3
2037	847175 MP8

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement between the Issuer and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. [The Issuer has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____].

Dated: _____

Digital Assurance Certification, L.L.C., as Disclosure
Dissemination Agent, on behalf of the Issuer

cc:

EXHIBIT C-1

EVENT NOTICE COVER SHEET

This cover sheet and accompanying "event notice" may be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name: _____

Issuer's Six-Digit CUSIP Number: _____

or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

Number of pages attached: _____

____ Description of Notice Events (Check One):

1. _____ "Principal and interest payment delinquencies;"
2. _____ "Non-Payment related defaults, if material;"
3. _____ "Unscheduled draws on debt service reserves reflecting financial difficulties;"
4. _____ "Unscheduled draws on credit enhancements reflecting financial difficulties;"
5. _____ "Substitution of credit or liquidity providers, or their failure to perform;"
6. _____ "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7. _____ "Modifications to rights of securities holders, if material;"
8. _____ "Bond calls, if material;"
9. _____ "Defeasances;"
10. _____ "Release, substitution, or sale of property securing repayment of the securities, if material;"
11. _____ "Rating changes;"
12. _____ "Tender offers;"
13. _____ "Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14. _____ "Merger, consolidation, or acquisition of the obligated person, if material;"
15. _____ "Appointment of a successor or additional trustee, or the change of name of a trustee, if material."
16. _____ "Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders, if material;" or
17. _____ "Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties."

____ Failure to provide annual financial information as required.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.

315 East Robinson Street, Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

EXHIBIT C-2
VOLUNTARY EVENT DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary event disclosure" may be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of May 28, 2020 between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

Issuer's Six-Digit CUSIP Number:

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

Number of pages attached: _____

_____ Description of Voluntary Event Disclosure (Check One):

1. _____ "amendment to continuing disclosure undertaking;"
2. _____ "change in obligated person;"
3. _____ "notice to investors pursuant to bond documents;"
4. _____ "certain communications from the Internal Revenue Service;"
5. _____ "secondary market purchases;"
6. _____ "bid for auction rate or other securities;"
7. _____ "capital or other financing plan;"
8. _____ "litigation/enforcement action;"
9. _____ "change of tender agent, remarketing agent, or other on-going party;"
10. _____ "derivative or other similar transaction;" and
11. _____ "other event-based disclosures."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
315 East Robinson Street, Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

EXHIBIT C-3

VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET

This cover sheet and accompanying “voluntary financial disclosure” may be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of May 28, 2020 between the Issuer and DAC.

Issuer’s and/or Other Obligated Person’s Name:

Issuer’s Six-Digit CUSIP Number:

or Nine-Digit CUSIP Number(s) of the bonds to which this notice relates:

Number of pages attached: _____

_____ Description of Voluntary Financial Disclosure (Check One):

1. _____ “quarterly/monthly financial information;”
2. _____ “change in fiscal year/timing of annual disclosure;”
3. _____ “change in accounting standard;”
4. _____ “interim/additional financial information/operating data;”
5. _____ “budget;”
6. _____ “investment/debt/financial policy;”
7. _____ “information provided to rating agency, credit/liquidity provider or other third party;”
8. _____ “consultant reports;” and
9. _____ “other financial/operating data.”

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

Name: _____ Title: _____

Digital Assurance Certification, L.L.C.
315 East Robinson Street, Suite 300
Orlando, FL 32801
407-515-1100

Date: _____

