



**SPARTANBURG WATER SYSTEM  
SPARTANBURG, SOUTH CAROLINA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDING JUNE 30, 2016**

## **I. INTRODUCTORY SECTION**

**SPARTANBURG WATER SYSTEM  
SPARTANBURG, SOUTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2016**

**SUBMITTED BY:  
FINANCE DEPARTMENT**

SPARTANBURG WATER SYSTEM  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

		<u>Page</u>
<b>I. Introductory Section</b>		
Title Page		i
Table of Contents		ii
List of Commissioners and Senior Management Staff		iii
Organization Chart		iv
Letter of Transmittal		v-viii
Certificate of Achievement for Excellence in Financial Reporting		ix
<b>II. Financial Section</b>	<b><u>Exhibit</u></b>	<b><u>Page</u></b>
Independent Auditor's Report		1-2
Management's Discussion and Analysis		3-12
Basic Financial Statements		
Statements of Net Position	A	13-14
Statements of Revenues, Expenses and Changes in Net Position	B	15
Statements of Cash Flows	C	16-18
Notes to Financial Statements		19-36
Required Supplementary Information		
Schedule of Funding Progress and Employer Contributions for Retiree Health Plan		38
Schedule of the System's Proportionate Share of The Collective Net Pension Liability		39
Schedule of the System's Contributions		39
<b>III. Statistical Section</b>	<b><u>Table</u></b>	<b><u>Page</u></b>
Contents		40
Financial Trends		
Net Position by Component	1	42
Changes in Net Position	2	43
Revenues by Source	3	44
Operating Expenses	4	45
Revenue Capacity		
Annual Billed Usage	5	47
Historical Volume Rate Information	6	48
Number of System Customers	7	49
Ten Largest Retail Customers	8	50
Wholesale Water Customers in Charge and Volume Order	9	51
Debt Capacity		
Debt Outstanding	10	53
Historical Statements of Revenues, Expenses, Debt Service and Debt Service Coverage	11	54
Demographic and Economic Information		
Spartanburg County Demographic Statistics	12	56
Spartanburg County, South Carolina Major Employers and Changes	13	57
Operating Information		
Schedule of Capacity Fees and User Charges	14	59
Monthly Billed Flows	15	60
Miles of Pipe	16	61
Number of Employees	17	62
Annual Rainfall	18	63
<b>IV. Compliance Section</b>		
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		64

# **Spartanburg Water System Officials**

## **List of Commissioners and Senior Management Staff**

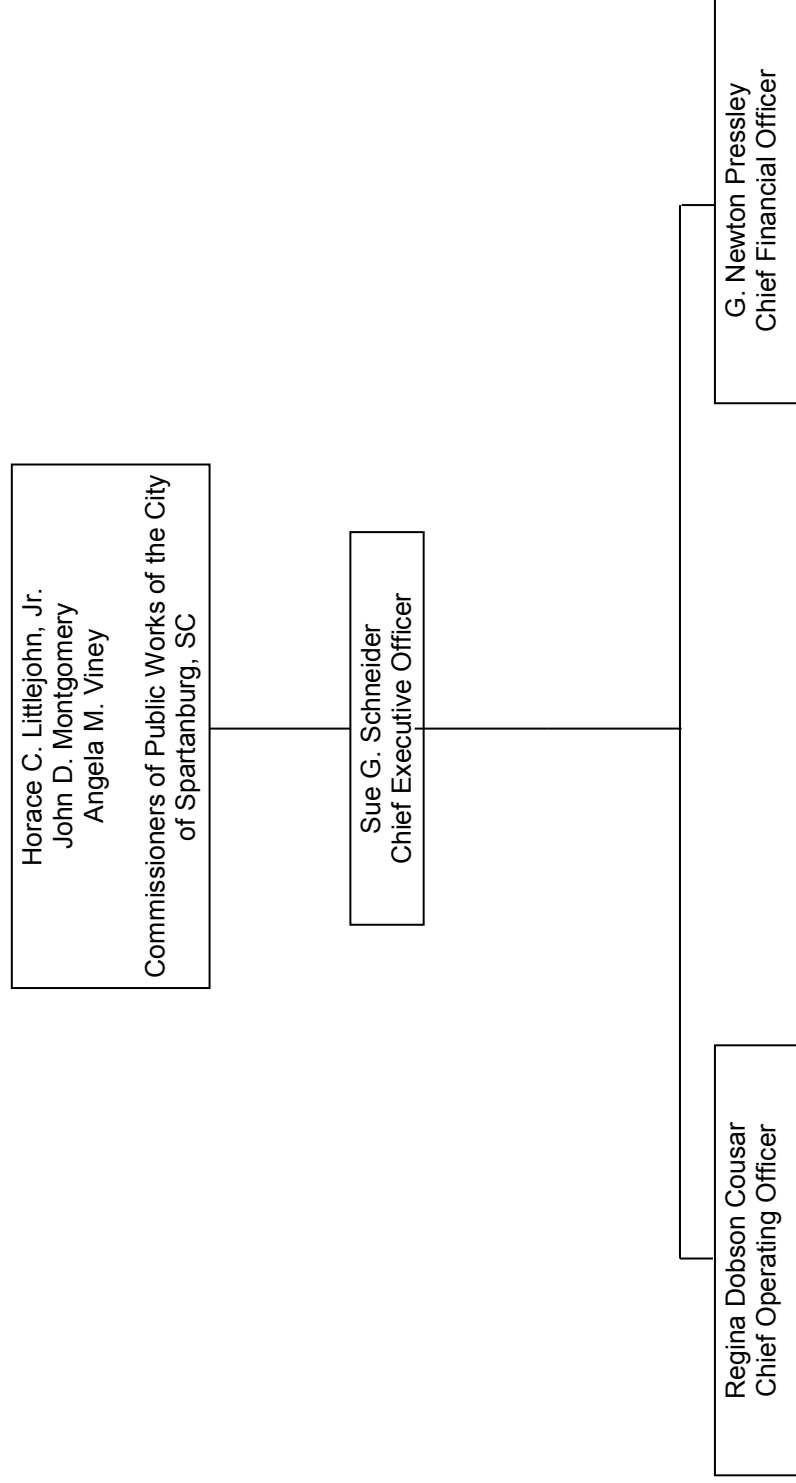
### **Commissioners**

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

### **Senior Management Staff**

Sue G. Schneider ..... Chief Executive Officer  
G. Newton Pressley..... Chief Financial Officer  
Regina Dobson Cousar ..... Chief Operating Officer

# Spartanburg Water System Organization Chart





Letter of Transmittal  
December 2, 2016

To the Commissioners and Customers  
of the Spartanburg Water System

We are pleased to submit to you the Comprehensive Annual Financial Report ("CAFR") for the Spartanburg Water System (the "System") for the fiscal year ended June 30, 2016. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System'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 System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

The System'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 System 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 System'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 unqualified opinion that the System's financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. 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 System'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 SYSTEM**

The System is a Commission of Public Works created in 1908 by the General Assembly of the State of South Carolina to provide public water utility services to Spartanburg, South Carolina and surrounding communities.

The System 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 System serves retail customers located inside and outside the city limits of the City and the Towns of Cowpens, Pacolet and Landrum. Additionally, the System provides water on a wholesale basis through master meters to two water districts, two water companies, and one town. These wholesale customers are located primarily inside Spartanburg County and, to a lesser extent, Cherokee County and Union County.

The System is governed by a three member Commission elected from the residents of the City of Spartanburg. The Commissioners serve staggered six-year terms, with elections held every two years.

The Spartanburg Water System has three water filtration plants. Raw water supply for the R.B. Simms Water Filtration Plant is obtained from Lake Bowen and Municipal Reservoir #1. Both lakes are located on the South Pacolet River system. The raw water flows by gravity to the Simms Plant, which is located near the confluence of the South and North Pacolet Rivers at a point approximately 12 miles northeast of the City of Spartanburg. Raw water for the Myles W. Whitlock, Jr. Water Treatment Facility is obtained from Lake Blalock. This lake is located on the Pacolet River system. The raw water is pumped to the Whitlock Plant, which is located off Highway 221 approximately 10 miles east northeast of the City of Spartanburg. The Landrum Water Filtration Plant uses surface water from Hogback Creek, located near the top of Hogback Mountain, as well as Vaughn's Creek, located near Lake Lanier. The source water is located in Spartanburg County within the Broad River Basin.

#### **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. In May, 2010, USC Upstate opened the George Dean Johnson, Jr. College of Business and Economics in the heart of downtown Spartanburg. In August 2011, the Edward Via College of Osteopathic Medicine opened the Carolinas Campus in Spartanburg.

Spartanburg County's unemployment rate in June 2016 was 5.7%, as compared with the state rate of 5.6% and the national rate of 5.1%.



## FINANCIAL MANAGEMENT

The System adopts an annual operating budget for management and financial planning purposes. The System'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 System'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 28, 2016 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 System'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 United States 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, 2016 investment distribution, see Note 2 to the Financial Statements.

The System is a member of the South Carolina Retirement System, one of four defined benefit retirement systems maintained by the Retirement Division of the State Budget and Control Board of South Carolina. For information regarding the System's retirement plan, see Note 8 to the Financial Statements.

For information regarding the System's risk management function, see Note 11 to the Financial Statements.

## FINANCIAL CONDITION

The increase in net position for fiscal year 2016 was \$5,742,730, a 10.6% increase for the fiscal year. The customer base increased by 710 accounts, or 1.2%, for fiscal year 2016. The average annual growth rate over the past five years was 0.8%. The System's revenue bond covenants require debt service coverage of 110% for Revenue Bonds. The debt service coverage ratio was 172% for fiscal year 2016. A recent rate survey of comparable utilities in the region indicated that the System'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 system. The Depreciation Fund provides for the renovation and replacement of operational equipment and system facilities and has been adequately funded in recent years; this fund had a June 30, 2016 balance of \$4,556,241.

## AWARDS

Spartanburg Water was honored as Utility of the Future Today, 2016. Spartanburg Water was one of 61 utilities worldwide recognized for exceptional performance by a partnership of water sector organizations in 2016—the National Association of Clean Water Agencies (NACWA), the Water Environment Federation (WEF), the Water Environment & Reuse Foundation (WE&RF) and the WaterReuse Association—with input from the U.S. Environmental Protection Agency (EPA).

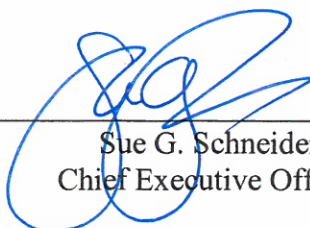
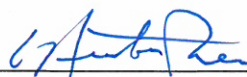
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Spartanburg Water System for its comprehensive annual financial report for the fiscal year ended June 30, 2015. This was the thirteenth year 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 System 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 Water System  
South Carolina**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

A handwritten signature in black ink, reading "Jeffrey R. Emer". The signature is written in a cursive, flowing style.

Executive Director/CEO

## **II. FINANCIAL SECTION**

To the Commissioners and Officers of  
Spartanburg Water System  
200 Commerce Street  
Spartanburg, South Carolina

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Spartanburg Water System as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Spartanburg Water System's basic financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Spartanburg Water System as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Prior Period Financial Statements*

The financial statements of the Spartanburg Water System as of June 30, 2015, were audited by other auditors whose report dated on November 13, 2015, expressed an unmodified opinion on those financial statements, which included an emphasis of matter paragraph describing the change in accounting principle with the adoption of Governmental Accounting Standards Board (GASB) Statements No. 68 and 71. As discussed in Note 16 to the financial statements, the Spartanburg Water System has adjusted its 2015 financial statements for the correction of an error. The other auditors reported on the financial statements before the prior period adjustment.

As part of our audit of the 2016 financial statements, we also audited the adjustments to the 2015 financial statements to correct an error as described in Note 16. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the Spartanburg Water System's 2015 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and employer contributions for retiree health plan, and schedule of the System's proportionate share of the collective net pension liability 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 GASB, 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 basic financial statements that collectively comprise the Spartanburg Water System's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. 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.

**Other Reporting Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2016, on our consideration of the Spartanburg Water System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Spartanburg Water System's internal control over financial reporting and compliance.

*McAbee, Schwartz, Halliday & Co.*

Spartanburg, South Carolina  
December 2, 2016

## **Spartanburg Water System 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 System's financial condition and performance for the fiscal year ended June 30, 2016. This information should be read in conjunction with the transmittal letter and the System's financial statements, as listed in the table of contents included in this report.

### **Financial Highlights**

As of June 30, 2016, total assets of \$254,976,421 and deferred outflows of resources of \$8,451,473 exceeded total liabilities of \$201,838,826 and deferred inflows of resources of \$1,434,503 by \$60,154,565. For the fiscal year 2015, total assets of \$252,252,244 and deferred outflow of resources of \$7,759,129 exceeded total liabilities of \$204,110,104 and deferred outflows of resources of \$1,489,434 by \$54,411,835. Also during fiscal year 2015, the System implemented Government Accounting Standards Board (GASB) Statements No. 68 and 71 resulting in a change in accounting principle that reduced net position \$17,417,791 as of July 1, 2015. For additional information on the change in accounting principle, refer to Note 17 to the financial statements.

For the fiscal year ended June 30, 2016, the increase in net position, before capital contributions, was \$4,489,416. The System's increase in net position, after capital contributions of \$1,253,314, was \$5,742,730. For the fiscal year 2015, the increase in net position, before capital contributions, was \$3,492,609. The System's increase in net position, after capital contributions of \$378,256, was \$3,870,865.

For fiscal year 2016, operating revenues increased by \$2,297,742 to \$39,841,136 or 6.1%, nonoperating revenues increased by \$221,615 to \$4,282,617 or 5.5%, and total expenses increased by \$1,522,550 to \$39,634,337 or 4.0%. For fiscal year 2015, operating revenues increased by \$3,373,821 to \$37,543,394 or 9.9%. Nonoperating revenues increased by \$53,781 to \$4,061,002 or 1.4%. Total expenses increased by \$2,797,072 to \$38,111,787 or 7.9%.

The System's revenue bond covenants require debt service coverage of 110% for all Revenue Bonds. The fiscal year 2016 total system revenue bond debt service coverage ratio was 172%. The fiscal year 2015 total system revenue bond debt service coverage ratio was 157%.

### **Overview of the Financial Statements**

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

The Statements of Net Position present the System's financial position and reports information on all of the assets (resources owned by the System), deferred outflows of resources, liabilities (obligations of the System), and deferred inflows of resources. The difference between assets plus deferred outflows and liabilities plus deferred inflows is 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 System's operations over the past year and serves as the basis for determining the System's actual Debt Service Coverage Ratio, as required by the System's revenue bond covenant.

The Statements of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. The statements provide 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 System

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, 2016, 2015 and 2014. The largest portion of the System's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding.

### Condensed Statements of Net Position

	2016	2015 (Restated)	2014 (Restated)
<b>Assets</b>			
Current and Noncurrent Assets	\$ 63,289,868	\$ 62,380,776	\$ 61,293,205
Capital Assets - Net of Accumulated Depreciation	191,686,553	189,871,468	190,511,411
<b>Total Assets</b>	<u>\$ 254,976,421</u>	<u>\$ 252,252,244</u>	<u>\$ 251,804,616</u>
<b>Deferred Outflow of Resources</b>			
Bond Defeasance Loss	\$ 5,782,626	\$ 6,246,655	\$ 5,034,943
Deferred Outflows from Pension	2,668,847	1,512,474	-
<b>Total Deferred Outflows of Resources</b>	<u>\$ 8,451,473</u>	<u>\$ 7,759,129</u>	<u>\$ 5,034,943</u>
<b>Liabilities</b>			
Current Liabilities	\$ 13,239,227	\$ 11,308,944	\$ 11,077,811
Noncurrent Liabilities	188,599,599	192,801,160	177,802,987
<b>Total Liabilities</b>	<u>\$ 201,838,826</u>	<u>\$ 204,110,104</u>	<u>\$ 188,880,798</u>
<b>Deferred Inflows of Resources</b>			
Deferred Inflows from Pension	\$ 1,434,503	\$ 1,489,434	\$ -
<b>Net Position</b>			
Net Investment in Capital Assets	\$ 71,655,431	\$ 68,397,749	\$ 52,165,078
Unrestricted	(11,500,866)	(13,985,914)	15,793,683
<b>Total Net Position</b>	<u>\$ 60,154,565</u>	<u>\$ 54,411,835</u>	<u>\$ 67,958,761</u>

In fiscal year 2016, current and noncurrent assets increased by \$909,092 to \$63,289,868, primarily due to an increase in accounts receivable – net of allowance for doubtful accounts. In fiscal year 2015, there was an increase in current and noncurrent assets of \$1,087,571 to \$62,380,776 primarily due to proceeds from the Revenue Bonds for various system projects. See Debt Administration section on pages 10-11 for further explanation.

Capital assets increased by \$1,815,085 to \$191,686,553 in fiscal year 2016 and decreased by \$639,943 to \$189,871,468 in fiscal year 2015. See Capital Assets section on page 10 for further explanation.

Current and noncurrent assets included cash and investments of \$53,552,416. The distribution by fund of the year-end balances for fiscal years 2016 and 2015 are provided below:

<b>Fund</b>	2016	2015
Operating	\$ 4,714,980	\$ 4,062,885
Debt Service Trust Account	14,175,403	14,148,476
Rate Stabilization	1,610,000	1,410,000
Depreciation	4,556,241	4,890,230
<b>Capital Project Funds</b>		
Capital	3,384,879	2,429,034
Water Line Repair/Replacement	767,169	502,156
Bond Funds	24,343,744	26,936,335
<b>Total Cash and Investments</b>	<u>\$ 53,552,416</u>	<u>\$ 54,379,116</u>



Current and noncurrent assets also included receivables of \$8,110,865, with the substantial portion associated with customer accounts receivable, net of allowance for doubtful accounts, of \$7,097,863 and the intercompany receivable from Spartanburg Sanitary Sewer District of \$982,397. This is compared to the fiscal year 2015 receivables of \$6,321,613, with customer accounts receivable, net of allowance for doubtful accounts, of \$5,442,556, and intercompany receivable from Spartanburg Sanitary Sewer District of \$858,684.

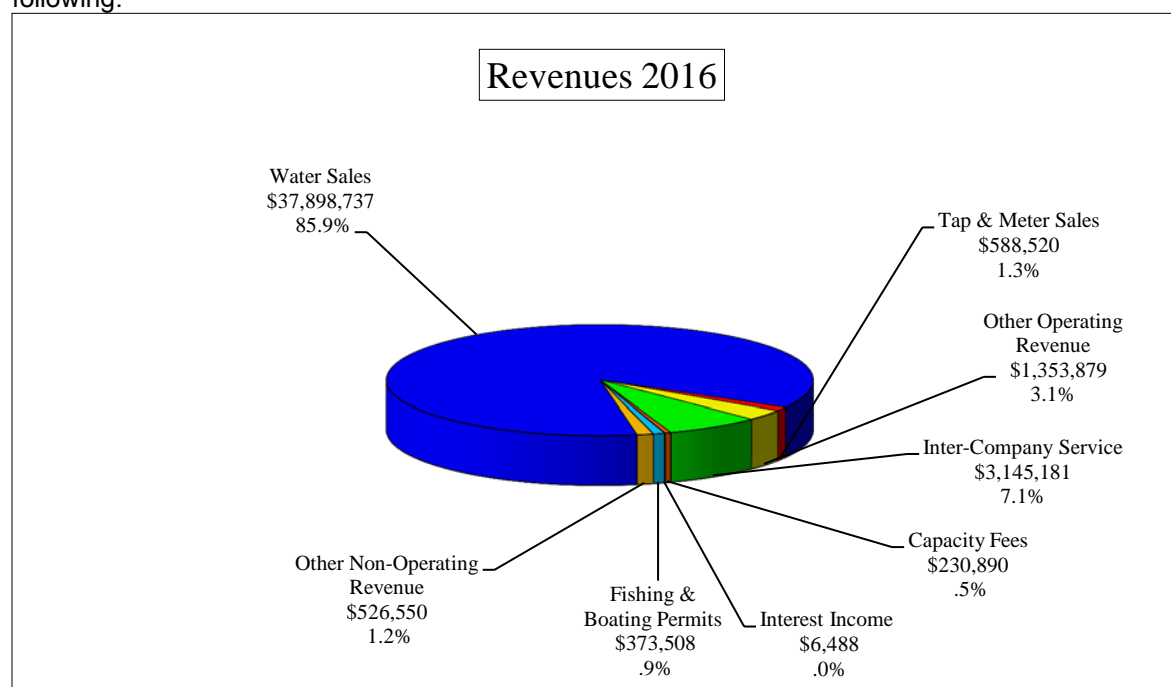
Current liabilities as of June 30, 2016 included accounts payable from operating funds of \$793,585 and accounts payable from capital funds of \$1,046,767. Current liabilities as of June 30, 2015 included accounts payable from operating funds of \$979,533 and accounts payable from capital funds of \$559,743. The current portion of long-term debt totaled \$5,225,000 and \$4,265,000 at June 30, 2016 and 2015, respectively.

The Condensed Statements of Revenues, Expenses and Changes in Net Position are provided below as a summary for the fiscal years ended June 30, 2016, 2015 and 2014.

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

	2016	2015 (Restated)	2014
Revenues			
Operating Revenues			
Water Sales	\$ 37,898,737	\$ 35,785,630	\$ 32,429,507
Tap & Meter Sales	588,520	471,340	383,845
Other Operating Revenues	1,353,879	1,286,424	1,356,221
	<u>39,841,136</u>	<u>37,543,394</u>	<u>34,169,573</u>
Nonoperating Revenues			
Intercompany Services	3,145,181	2,977,887	2,961,169
Other Nonoperating Revenues	1,137,436	1,083,115	1,046,052
	<u>4,282,617</u>	<u>4,061,002</u>	<u>4,007,221</u>
Total Revenues	<u>44,123,753</u>	<u>41,604,396</u>	<u>38,176,794</u>
Expenses			
Operating Expenses, Before Depreciation	23,292,434	21,508,056	20,746,447
Depreciation Expense	7,244,640	6,936,967	6,527,267
Nonoperating Expenses	9,097,263	9,666,764	8,041,001
Total Expenses	<u>39,634,337</u>	<u>38,111,787</u>	<u>35,314,715</u>
Excess, Before Capital Contributions	4,489,416	3,492,609	2,862,079
Capital Contributions	<u>1,253,314</u>	<u>378,256</u>	<u>446,147</u>
Change in Net Position	5,742,730	3,870,865	3,308,226
Net Position, Beginning of Year, Restated (2015)	<u>54,411,835</u>	<u>50,540,970</u>	<u>64,650,535</u>
Net Position, End of Year	<u><u>\$ 60,154,565</u></u>	<u><u>\$ 54,411,835</u></u>	<u><u>\$ 67,958,761</u></u>

Revenues (excluding capital contributions) for the fiscal year ended June 30, 2016 were comprised of the following:



Water sales were comprised of metered volume charges of \$31,585,860, base charges of \$6,177,935, and other miscellaneous billings of \$134,942. Water sales increased by \$2,113,107 or 5.9%. Volume charges increased by 5.9%, which reflected the increase in billed volume as follows:

- The billed volume for fiscal year 2016 was 62,062,084 (100 gallons), an increase of 2,280,137 or 3.8%, over fiscal year 2015. The billed volume for fiscal year 2015 was 59,781,947 (100 gallons), an increase of 215,555 or 0.4%, over fiscal year 2014 primarily due to an increase in irrigation use due to decreased rainfall. The change in billed volume for fiscal years 2016 and 2015 was distributed among the following customer classes:

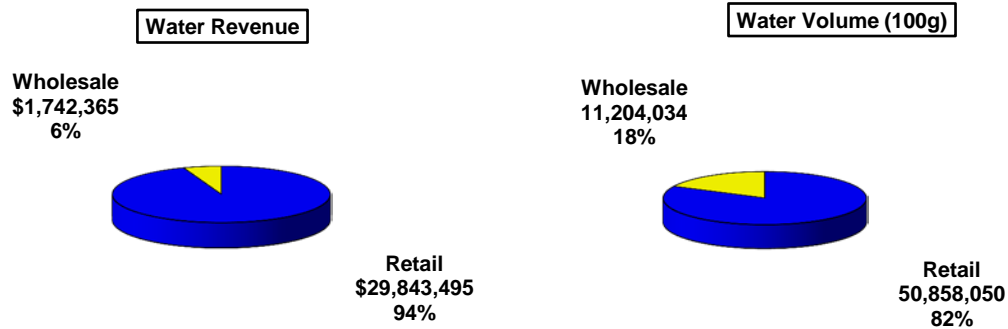
	FY 15 to FY16 Incr./(Decr.) (100g)	% of Incr./(Decr.)	FY 14 to FY15 Incr./(Decr.) (100g)	% of Incr./(Decr.)
Retail				
Residential	575,516	2.0%	892,039	3.3%
Commercial	840,509	6.5%	545,763	4.4%
Industrial	242,399	3.1%	(338,436)	-4.1%
Total Retail	1,658,424	2.3%	1,099,366	2.3%
Wholesale	621,713	5.9%	(883,811)	-7.7%
System Total	2,280,137	3.8%	215,555	0.4%

The fiscal year 2016 volume increase resulted primarily from the increase in customers and additional irrigation.

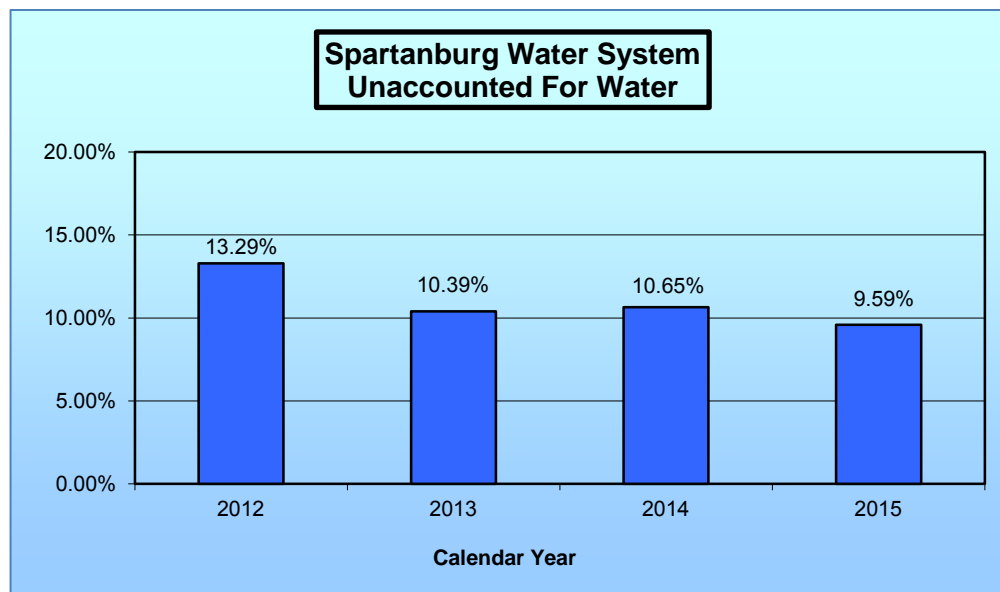
Base charge revenue for fiscal year 2016 increased by \$239,121 over fiscal year 2015, resulting from the growth in the residential customer base. The increase from fiscal year 2016 over fiscal year 2014 was \$2,243,983.

Fiscal year 2016 volume charges are further analyzed by the following charts:

#### Fiscal Year 2016 Metered Volume Charges – Revenue vs. Volume

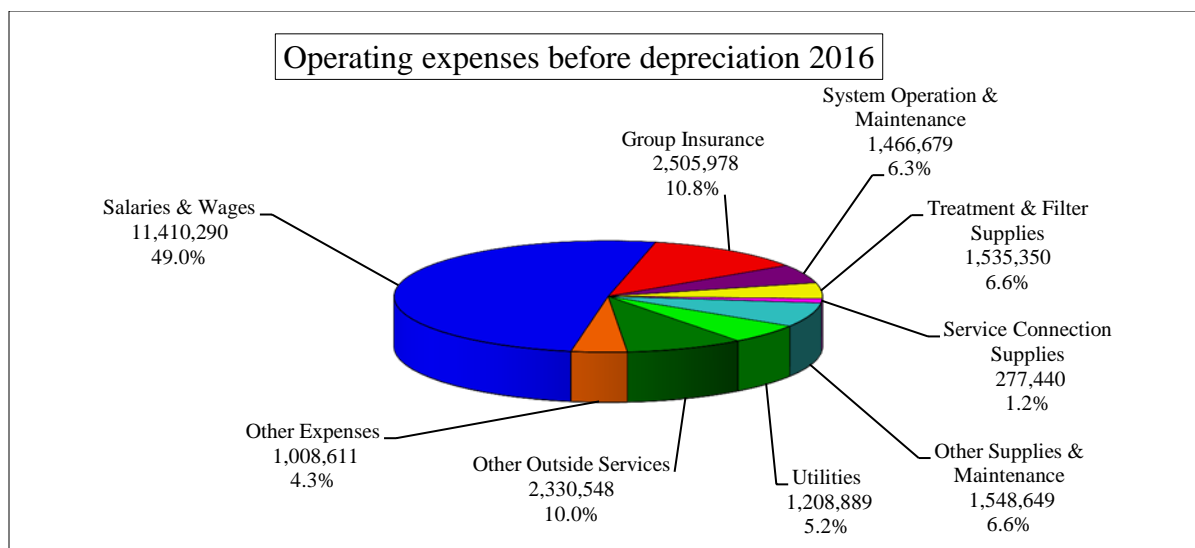


The System maintains a comprehensive tracking program to monitor Unaccounted for Water, as reflected graphically, by calendar year.



In fiscal year 2016, other nonoperating revenue increased by \$54,321, due to an increase in capacity fees of \$41,486, lake revenue of \$10,774, miscellaneous income of \$21,676 and gain from sale of equipment of \$4,385, offset by a decrease in interest income of \$7,862 and administrative income of \$16,138. In fiscal year 2015, other nonoperating revenue increased by \$37,063, due to an increase in interest income of \$11,404, capacity fees of \$45,983, administrative income of \$15,211, lake revenue of \$40,540, and gain from sale of equipment of \$22,818, offset by a decrease in miscellaneous income of \$98,893.

The intercompany reimbursement from Spartanburg Sanitary Sewer District was comprised of the following types of intercompany services: billing and collection, administrative and financial, engineering, fleet maintenance, field maintenance, and facility allocations for maintenance and the lab. Operating expenses before depreciation were comprised of the following:



The following table provides a comparison of 2016, 2015 and 2014 operating expenses before depreciation for major expense categories.

#### Comparison of operating expenses before depreciation

Expense Category	Increase / (Decrease)			
	2016	2015 (Restated)	Amount	% of Change
Salaries and wages	\$11,410,290	\$10,946,158	\$464,132	4.2%
Group insurance	2,505,978	2,831,074	(325,096)	-11.5%
System operation and maint.	1,466,679	1,146,121	320,558	27.9%
Treatment and filter supplies	1,535,350	883,558	651,792	73.8%
Service connection supplies	277,440	371,822	(94,382)	-25.4%
Other supplies and maintenance	1,548,649	1,452,395	96,254	6.6%
Utilities	1,208,889	1,217,051	(8,162)	-0.7%
Other outside services	2,330,548	1,809,050	521,498	28.8%
Other expenses	1,008,611	850,827	157,784	18.5%
Total operating expenses before depreciation	\$23,292,434	\$21,508,056	\$1,784,378	8.3%

	Increase / (Decrease)			
	2015 (Restated)	2014	Amount	% of Change
Salaries and wages	\$10,946,158	\$10,535,936	\$410,222	3.9%
Group insurance	2,831,074	2,502,318	328,756	13.1%
System operation and maint.	1,146,121	1,135,632	10,489	0.9%
Treatment and filter supplies	883,558	944,139	(60,581)	-6.4%
Service connection supplies	371,822	265,735	106,087	39.9%
Other supplies and maintenance	1,452,395	1,458,904	(6,509)	-0.4%
Utilities	1,217,051	1,186,892	30,159	2.5%
Other outside services	1,809,050	1,843,673	(34,623)	-1.9%
Other expenses	850,827	873,218	(22,391)	-2.6%
Total operating expenses before depreciation	\$21,508,056	\$20,746,447	\$761,609	3.7%

Operating expenses before depreciation increased by \$1,784,378 or 8.3% from fiscal year 2016 to 2015. The increase was \$761,609 or 3.7%, from fiscal year 2015 to fiscal year 2014, primarily due to Salaries and Wages and Group Insurance. Highlights of the 2016 – 2015 expense comparison are provided below:

- The Salaries and Wages increase resulted primarily from merit pay increases, an increase in retirement contributions, and the addition of the Construction Department. These increases were offset by cost savings associated with current year vacancies.
- The Group Insurance decrease resulted from a favorable claims experience for fiscal year 2016.
- The System Operations and Maintenance line item includes supply cost and contracted maintenance applicable to the water filtration plants and distribution system. The increase is primarily the result of higher costs associated with line breaks and repairs during fiscal year 2016.
- The Treatment and Filter Supplies increase was due to the efforts to combat Methyl-Isoborneol (MIB) levels that caused taste and odor issues in drinking water.
- The variance in Service Connection Supplies is due to the decrease in water service repairs for the system during fiscal year 2016.
- The variance in Other Supplies and Maintenance is primarily the result of increases in Laboratory Supplies and Building & Grounds Maintenance. These increases were offset by decreases in fuel costs and maintenance of vehicles and construction equipment.
- The increase in Other Outside Services was associated with the increased outside lab testing due to Methyl-Isoborneol (MIB) levels that caused taste and odor issues in drinking water.
- The increase in Other Expenses is primarily associated with the increase in Public Relations and Information, that includes our Choose Tap and Water Matters programs.
- The other line items reflected no significant change in the comparison of fiscal year 2015 to fiscal year 2016.

Nonoperating expenses decreased by \$569,501 or 5.9%, due to the decrease in interest expense and paying agent fees of \$81,720, payments to other governmental units of \$100,000 and bond issuance expense of \$387,781.

#### Capital Contributions:

The System receives contributions from developers in the form of cash payments and donated lines. 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 2016 totaled \$1,253,314 and were comprised of donated lines of \$755,199 and cash payments of \$498,115. Capital contributions for fiscal year 2015 totaled \$378,256 and were comprised of donated lines of \$229,994 and cash payments of \$148,262. The capital contributions received in cash were comprised of participation fees and miscellaneous project contributions.

## Capital Assets

At June 30, 2016, the System had \$191,686,553 invested in capital assets, as provided in the schedule below:

<b>Capital Assets at Year-End</b>			
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Transmission, Distribution and Treatment Facilities	\$ 178,929,248	\$ 179,321,467	\$ 179,160,032
Other Facilities & Property	3,021,702	3,073,805	3,244,543
Vehicles, Office & Maintenance Equipment	5,436,004	4,209,109	3,726,268
Construction in Progress	4,299,599	3,267,087	4,380,568
Capital Assets - Net of Accumulated Depreciation	<u>\$ 191,686,553</u>	<u>\$ 189,871,468</u>	<u>\$ 190,511,411</u>

Significant changes for Capital Assets during fiscal year 2016 included a net decrease in Transmission, Distribution and Treatment Facilities. The additions of \$755,199 in donated lines, various waterline extensions and rehab of \$804,559, California Avenue and SC Highway 9 SCDOT Bridges project of \$1,177,023; capitalized labor, storage tank rehab and various distribution system improvements were offset by an increase in current year depreciation expense. In addition, there was an increase in Construction in Progress of \$1,032,512 for various ongoing construction projects. Vehicles and service and maintenance equipment had an increase due to the replacement of depreciated large vehicles and maintenance equipment.

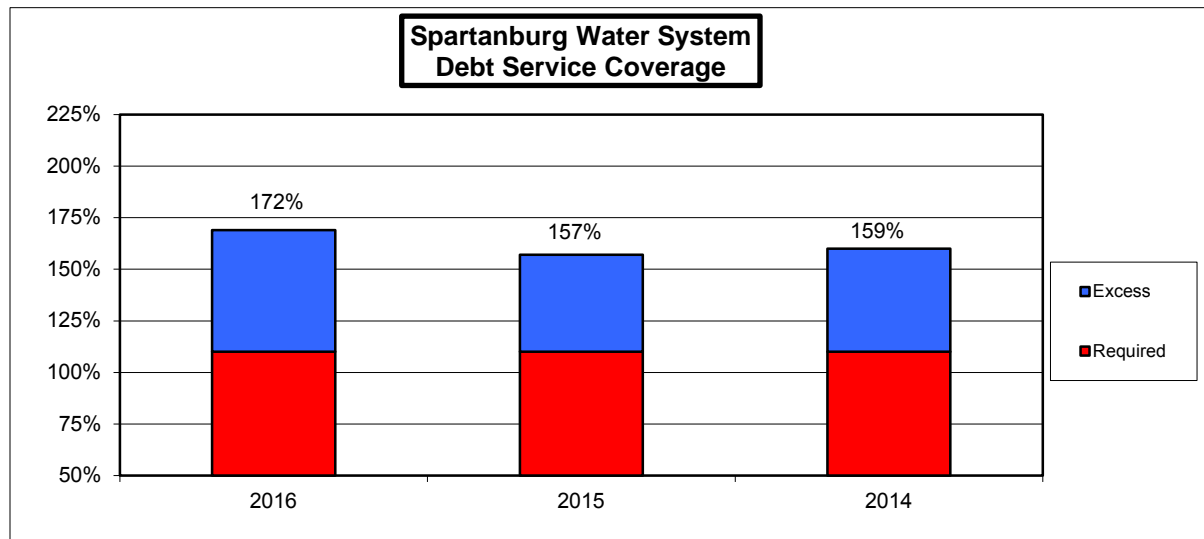
Significant changes during fiscal year 2015 included an increase in Transmission, Distribution, and Treatment Facilities. The increase resulted primarily from the following: the addition of \$229,994 in donated lines, various waterline extensions and rehab of \$1,186,404, R.B. Simms Filter Rehab (#8 & #9) of \$1,646,905; capitalized labor, storage tank rehab and various distribution system improvements. In addition, there was an increase in accumulated depreciation from the completion of the R.B. Simms WTF upgrade. Vehicles and maintenance equipment had an increase due to the replacement of depreciated large maintenance equipment.

## Debt Administration

### Debt Service Coverage

In the System's revenue bond resolution, the System 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. The computation of Net Earnings is presented by the detailed Schedule of Revenue Bond Debt Service Coverage, which is provided in the statistical section of this report. The System's historical debt service coverage is summarized by the following table:

<b>Debt Service Coverage</b>	<b>2016</b>	<b>2015 (Restated)</b>	<b>2014</b>
Net Earnings per Revenue Bond Covenant	\$ 20,909,242	\$ 20,245,098	\$ 17,462,175
Revenue Bond Debt Service	12,151,334	12,896,811	10,999,790
Revenue Bond Debt Service Coverage	1.72	1.57	1.59



### **Outstanding Debt at Year-End**

The System had \$169,600,000 in short-term and long-term revenue bond debt outstanding at year-end, as scheduled below:

	Average Yield	Outstanding Debt		
		2016	2015	2014
Long-term Debt				
2002 Water System Refunding Revenue Bond	4.03%	\$ -	\$ -	\$ 785,000
2007A Water System Refunding Revenue Bond	4.32%	65,710,000	69,505,000	72,345,000
2007B Water System Revenue Bond	4.39%	4,180,000	4,180,000	31,200,000
2009 Water System Revenue Bond	4.97%	33,935,000	33,935,000	33,935,000
2010 Water System Revenue Bond	5.25%	-	-	6,585,688
2012 Water System Revenue Bond	2.23%	6,180,000	6,650,000	7,105,000
2013 Water System Revenue Bond	4.62%	27,255,000	27,255,000	27,255,000
2015A Water System Refunding Revenue Bond	3.40%	26,085,000	26,085,000	-
2015B Water System Refunding Revenue Bond	3.40%	6,255,000	6,255,000	-
Total Debt Outstanding		\$ 169,600,000	\$ 173,865,000	\$ 179,210,688

For more information on changes in short-term and long-term debt, see Note 5 to the financial statements.

### **Bond Ratings**

The System maintained the following ratings during fiscal year 2016:

Agency	Revenue
Standard & Poor's	AA-
Moody's	Aa3

## **Financial Planning**

Although the System does not have a legally adopted budget, an annual operating budget is adopted for management and financial planning purposes. The System conducts an update of the financial planning process as follows: departmental staffing plans, detailed budget requests, and depreciation schedules are prepared; System-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 and water rates.

The System Commission approved a balanced Annual Operating Budget for fiscal year 2017 in the total amount of \$43,650,807, which represents a 5.9% increase over the previous year's budgeted revenues and expenditures. The budget increase reflects added funding for Treatment Chemicals for taste and odor issues and increased support for Distribution System Rehab program. The approved budget included funding of reserves for the Depreciation Fund - \$1,500,000, Capital Fund - \$750,000 and the Distribution System Rehab Fund - \$500,000.

## **Other Significant Matters**

- *Replacement of Aging Infrastructure*

The System has enhanced efforts to address aging water mains. Various water main replacement projects were completed by the Maintenance Department and outside contractors during fiscal year 2016, with ongoing projects captured in the Construction in Progress.

## **Requests for Information**

This financial report is intended to provide a general overview of the System's finances. For questions concerning this report or other requests for financial information, please contact:

Chief Financial Officer  
Spartanburg Water System  
P.O. Box 251  
Spartanburg, SC 29304  
(864) 583-7361



SPARTANBURG WATER SYSTEM  
STATEMENTS OF NET POSITION  
JUNE 30, 2016 AND 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2016	Restated 2015
Assets		
Current assets		
Cash	\$ 13,527,840	\$ 12,408,627
Investments	5,252	5,223
Accounts receivable - net of allowance for doubtful accounts of \$206,697 and \$208,570 as of 2016 and 2015, respectively	7,097,863	5,442,556
Loans receivable	30,605	20,373
Other receivables	982,397	858,684
Inventories	1,626,587	1,680,047
Total current assets	23,270,544	20,415,510
Noncurrent assets		
Restricted cash	25,843,921	27,816,790
Restricted investments	14,175,403	14,148,476
Capital assets - net of accumulated depreciation	191,686,553	189,871,468
Total noncurrent assets	231,705,877	231,836,734
Total Assets	254,976,421	252,252,244
Deferred Outflows of Resources		
Deferred loss on refundings	5,782,626	6,246,655
Deferred amounts related to pensions	2,668,847	1,512,474
Total Deferred Outflows of Resources	8,451,473	7,759,129

SPARTANBURG WATER SYSTEM  
STATEMENTS OF NET POSITION - CONTINUED  
JUNE 30, 2016 AND 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2016	Restated 2015
Liabilities		
Current liabilities		
Accounts payable	1,858,298	1,539,276
Payable from restricted assets - customer deposits	1,500,176	1,298,006
Accrued salaries and wages	1,069,933	916,345
Accrued employee benefits	300,907	199,738
Accrued interest expense	619,488	552,510
Other payables	595,543	572,400
Sewer and water collections payable to others	2,069,882	1,965,669
Long-term debt - current portion	5,225,000	4,265,000
Total current liabilities	13,239,227	11,308,944
Noncurrent liabilities		
Net pension liability	19,039,448	17,666,729
Net other post-employment benefit obligation	4,627	33,826
Long-term debt - net of current portion	169,555,524	175,100,605
Total noncurrent liabilities	188,599,599	192,801,160
Total Liabilities	201,838,826	204,110,104
Deferred Inflows of Resources		
Deferred amounts related to pensions	1,434,503	1,489,434
Net Position		
Net investment in capital assets	71,655,431	68,397,749
Unrestricted	(11,500,866)	(13,985,914)
Total Net Position	\$ 60,154,565	\$ 54,411,835

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

SPARTANBURG WATER SYSTEM  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	Restated 2015
Operating Revenues		
Water sales	\$ 37,898,737	\$ 35,785,630
Private fire service rates	285,324	281,788
Cut-off service charges	361,531	393,266
Tap and meter sales	588,520	471,340
New account fees	157,350	187,124
Ice machine sales	406,833	356,653
Miscellaneous	142,841	67,593
	<u>39,841,136</u>	<u>37,543,394</u>
Operating Expenses		
Operating expenses before depreciation	23,292,434	21,508,056
Depreciation	7,244,640	6,936,967
	<u>30,537,074</u>	<u>28,445,023</u>
Operating Income	<u>9,304,062</u>	<u>9,098,371</u>
Nonoperating Revenues (Expenses)		
Capacity fees	230,890	189,404
Fishing and boating permits	373,508	362,734
Interest income	6,488	14,350
Miscellaneous	216,180	194,504
Intercompany services	3,145,181	2,977,887
Administrative income	229,517	245,655
Payments to other governmental units	(1,000,000)	(1,100,000)
Gain on sale of capital assets	80,853	76,468
Bond issuance costs	-	(387,781)
Interest and paying agent fees	(8,097,263)	(8,178,983)
	<u>(4,814,646)</u>	<u>(5,605,762)</u>
Increase in Net Position		
Before Capital Contributions	4,489,416	3,492,609
Capital Contributions	<u>1,253,314</u>	<u>378,256</u>
Increase in Net Position	5,742,730	3,870,865
Net Position - Beginning of Year - Restated (Note 17)	<u>54,411,835</u>	<u>50,540,970</u>
Net Position - End of Year	<u>\$ 60,154,565</u>	<u>\$ 54,411,835</u>

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

SPARTANBURG WATER SYSTEM  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	Restated 2015
Cash Flows Provided (Used) by Operating Activities		
Cash received from customers	\$ 39,177,472	\$ 38,187,994
Cash paid to suppliers for goods and services	(8,816,555)	(7,030,752)
Cash paid to or for the benefit of employees	(13,626,303)	(14,179,423)
	<u>16,734,614</u>	<u>16,977,819</u>
Cash Flows Provided (Used) by Noncapital Financing Activities		
Intercompany services	3,145,181	2,977,887
Payments to other governmental units	(1,000,000)	(1,100,000)
	<u>2,145,181</u>	<u>1,877,887</u>
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Capital contributions	498,115	148,262
Capacity fees	230,890	189,404
Acquisition and construction of capital assets	(8,306,705)	(6,074,774)
Proceeds from sale of capital assets	83,032	84,212
Proceeds from issuance of revenue bonds	-	203,580
Deferred loss on refundings	-	(182,599)
Bond issuance costs	-	(187,362)
Repayments of bonds payable - revenue bonds	(4,265,000)	(4,509,918)
Interest and paying agent fees	(7,953,315)	(8,012,334)
	<u>(19,712,983)</u>	<u>(18,341,529)</u>
Cash Flows Provided (Used) by Investing Activities		
Interest income	<u>6,488</u>	<u>14,350</u>
Net Decrease in Cash and Cash Equivalents	(826,700)	528,527
Cash and Cash Equivalents - Beginning of Year	<u>54,379,116</u>	<u>53,850,589</u>
Cash and Cash Equivalents - End of Year	<u>\$ 53,552,416</u>	<u>\$ 54,379,116</u>

SPARTANBURG WATER SYSTEM  
STATEMENTS OF CASH FLOWS - CONTINUED  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	Restated 2015
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating income	\$ 9,304,062	\$ 9,098,371
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	7,244,640	6,936,967
Pension expense	1,271,691	1,237,771
Nonoperating income	819,205	802,893
(Increase) decrease in assets:		
Accounts receivable	(1,655,307)	(868,303)
Loans receivable	(10,232)	656
Other receivables	(123,713)	173,048
Inventories	53,460	135,555
Deferred outflows related to pensions	(1,110,276)	(1,011,873)
Increase (decrease) in liabilities:		
Accounts payable	319,022	221,578
Customer deposits	202,170	204,605
Accrued salaries and wages	153,588	57,741
Accrued employee benefits	101,169	(94,236)
Accrued interest expense	66,978	(174,062)
Other payables	23,143	(71,276)
Sewer and water collections payable to others	104,213	331,702
Net other post-employment benefits obligation	(29,199)	(3,318)
Net Cash Provided (Used) by Operating Activities	<u>\$ 16,734,614</u>	<u>\$ 16,977,819</u>
Noncash Investing, Capital and Financing Activities		
Contribution of capital assets	\$ 755,199	\$ 229,994
Amortization included in interest expense	\$ 143,948	\$ 166,649
Disposal of assets	\$ 2,179	\$ 7,744
Advanced refunding		
Proceeds from revenue bond issue	\$ -	\$ 32,136,420
Defeased revenue bonds	\$ -	\$ (33,175,770)
Bond premium	\$ -	\$ 3,552,861
Deferred loss on advanced refundings	\$ -	\$ (2,313,092)
Bond issuance costs	\$ -	\$ (200,419)

SPARTANBURG WATER SYSTEM  
STATEMENTS OF CASH FLOWS - CONTINUED  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	Restated 2015
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	\$ 13,527,840	\$ 12,408,627
Investments	5,252	5,223
	<u>13,533,092</u>	<u>12,413,850</u>
Noncurrent assets		
Restricted cash	25,843,921	27,816,790
Restricted investments	14,175,403	14,148,476
	<u>40,019,324</u>	<u>41,965,266</u>
	<u>\$ 53,552,416</u>	<u>\$ 54,379,116</u>
Cash flow classifications		
Petty cash	\$ 4,917	\$ 4,717
Cash on hand	709,231	335,896
Cash deposits	38,657,613	39,884,804
Investments - cash equivalents	14,180,655	14,153,699
	<u>\$ 53,552,416</u>	<u>\$ 54,379,116</u>

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

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Spartanburg Water System (the System) is presented to assist in understanding the financial statements. The financial statements and notes are representations of the System'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 System provides public water utility services to the residents and businesses of Spartanburg, South Carolina and surrounding communities. The System is a special purpose district created in the year 1908 by the General Assembly of the State of South Carolina. The System is a primary government with no component units. The System is governed by three commissioners of the Commission of Public Works of the City of Spartanburg.

**Basis of Accounting**

Under US GAAP, the System is considered to be a self-supporting enterprise, and these financial statements are presented accordingly. Enterprise funds are used to account for operations 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. Governmental 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 System'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 System. Operating revenues consist primarily of charges for services. Nonoperating 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.

**Investments**

Investments are stated at fair value.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

**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 fair market value on the date donated. Assets are recorded as capital assets when valued at \$1,000 or more.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets are depreciated using the straight-line method over the following useful lives:

	Years
Motor vehicles	5 - 10
Service and maintenance equipment	10
Office furniture and fixtures	3 - 10
Buildings and improvements	20 - 33
System infrastructure	10 - 40

**Compensated Absences**

The System 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 not 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 System's deferred outflows of resources are deferred amounts arising from debt refunding and amounts related to the System's defined benefit pension plan. The System's only deferred inflows of resources are amounts related to the System's defined benefit pension plan.



SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

**Capital Contributions**

The System frequently has contributions from developers and contractors. In addition, the System 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.

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

*Custodial credit risk - deposits* - the System does not have a formal deposit policy for custodial credit risk which is the risk that in the event of a bank failure, the deposits may not be returned to the System. As of June 30, 2016 and 2015, the System was not exposed to custodial credit risk.

Statutes authorized the System 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. 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. The System has not adopted a formal deposit and investment policy.

*Interest rate risk* - the System does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

The System's investments are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The System's investments had the following recurring fair value measurements (Level 1 inputs) as of June 30, 2016 and 2015:

Investment Type	Maturity	Fair Value		Rating
		2016	2015	
State treasurer's investment pool	<60 days	\$ 5,252	\$ 5,223	Not rated
JP Morgan US Treasury Plus	60 days	-	583,295	Aaa
Dreyfus Government Prime	<90 days	14,175,403	13,565,181	Aaa-mf
		<u>\$ 14,180,655</u>	<u>\$ 14,153,699</u>	

The Spartanburg Water System is required under bond indenture agreements in connection with the issuance of bonds, to segregate certain assets. The following assets have been segregated and are restricted in use for the acquisition and construction of capital assets and debt service reserve funds.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 2 - CASH DEPOSITS AND INVESTMENTS - CONTINUED

Also, assets restricted in use to fulfill customer deposits have also been segregated. The assets listed below are shown in their respective categories in the accompanying statements of net position.

	2016	2015
Restricted Assets		
Cash		
Acquisition and construction of capital assets	\$ 24,343,745	\$ 26,518,784
Customer deposits	1,500,176	1,298,006
	<u>25,843,921</u>	<u>27,816,790</u>
Investments		
Debt service	1,099,898	1,074,528
Debt service reserves	13,075,505	13,073,948
	<u>14,175,403</u>	<u>14,148,476</u>
	<u>\$ 40,019,324</u>	<u>\$ 41,965,266</u>

NOTE 3 - LOANS RECEIVABLE

The System provides a program whereby it finances participation and capacity fees for new customers. The loan terms are bi-monthly payments of one to ten years at interest rates of nine to twelve percent. These loans are secured by a recorded lien against the homeowner's real property. The balance of loans receivable from customers was \$30,605 and \$20,373 at June 30, 2016 and 2015, respectively.

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets follows:

	2016			
	Balance June 30, 2015	Additions	Removals/ Disposals	Balance June 30, 2016
Capital Assets				
<b>Nondepreciable</b>				
Land	\$ 1,120,734	\$ -	\$ -	\$ 1,120,734
Construction in progress	3,267,087	3,752,110	2,719,598	4,299,599
<b>Total nondepreciable</b>	4,387,821	3,752,110	2,719,598	5,420,333
<b>Depreciable</b>				
Motor vehicles	3,216,211	790,556	50,796	3,955,971
Service and maintenance equipment	9,594,266	1,421,933	48,161	10,968,038
Office furniture and fixtures	4,422,741	302,881	46,203	4,679,419
Computer software	536,436	-	-	536,436
Office buildings	3,368,448	83,793	-	3,452,241
Transmission, distribution and treatment facilities	256,419,351	4,611,680	-	261,031,031
Joint maintenance facility	1,501,537	63,350	-	1,564,887
Joint lab building	882,354	-	-	882,354
Donated system facilities	12,873,537	755,199	-	13,628,736
<b>Total depreciable</b>	292,814,881	8,029,392	145,160	300,699,113
<b>Total Capital Assets</b>	297,202,702	11,781,502	2,864,758	306,119,446

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 4 - CAPITAL ASSETS - CONTINUED

2016 - Continued				
	Balance June 30, 2015	Additions	Removals/ Disposals	Balance June 30, 2016
Accumulated Depreciation				
Motor vehicles	2,712,437	296,301	50,796	2,957,942
Service maintenance and equipment	6,765,904	711,837	46,756	7,430,985
Office furniture and fixtures	3,780,314	235,143	45,429	3,970,028
Computer software	305,581	39,324	-	344,905
Office buildings	2,521,993	119,042	-	2,641,035
Transmission, distribution and treatment facilities	86,007,166	5,434,900	-	91,442,066
Joint maintenance facility	998,279	53,797	-	1,052,076
Joint lab building	278,991	26,412	-	305,403
Donated system facilities	3,960,569	327,884	-	4,288,453
	<u>107,331,234</u>	<u>7,244,640</u>	<u>142,981</u>	<u>114,432,893</u>
Capital Assets - Net of Accumulated Depreciation	<u>\$ 189,871,468</u>			<u>\$ 191,686,553</u>

2015				
	Balance June 30, 2014	Additions	Removals/ Disposals	Balance June 30, 2015
Capital Assets				
<b>Nondepreciable</b>				
Land	\$ 1,120,734	\$ -	\$ -	\$ 1,120,734
Construction in progress	4,380,568	4,568,451	5,681,932	3,267,087
<b>Total nondepreciable</b>	<u>5,501,302</u>	<u>4,568,451</u>	<u>5,681,932</u>	<u>4,387,821</u>
<b>Depreciable</b>				
Motor vehicles	3,061,868	321,013	166,670	3,216,211
Service and maintenance equipment	8,747,597	1,018,480	171,811	9,594,266
Office furniture and fixtures	4,309,139	173,469	59,867	4,422,741
Computer software	536,436	-	-	536,436
Office buildings	3,363,273	5,175	-	3,368,448
Transmission, distribution and treatment facilities	250,765,936	5,653,415	-	256,419,351
Joint maintenance facility	1,492,803	8,734	-	1,501,537
Joint lab building	874,385	7,969	-	882,354
Donated system facilities	12,643,543	229,994	-	12,873,537
<b>Total depreciable</b>	<u>285,794,980</u>	<u>7,418,249</u>	<u>398,348</u>	<u>292,814,881</u>
Total Capital Assets	<u>291,296,282</u>	<u>11,986,700</u>	<u>6,080,280</u>	<u>297,202,702</u>
Accumulated Depreciation				
Motor vehicles	2,685,516	193,591	166,670	2,712,437
Service maintenance and equipment	6,393,462	544,253	171,811	6,765,904
Office furniture and fixtures	3,583,537	248,900	52,123	3,780,314
Computer software	266,257	39,324	-	305,581
Office buildings	2,405,588	116,405	-	2,521,993
Transmission, distribution and treatment facilities	80,604,447	5,402,719	-	86,007,166
Joint maintenance facility	948,086	50,193	-	998,279
Joint lab building	252,978	26,013	-	278,991
Donated system facilities	3,645,000	315,569	-	3,960,569
	<u>100,784,871</u>	<u>6,936,967</u>	<u>390,604</u>	<u>107,331,234</u>
Capital Assets - Net of Accumulated Depreciation	<u>\$ 190,511,411</u>			<u>\$ 189,871,468</u>

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 4 - CAPITAL ASSETS – CONTINUED

Depreciation expense for the years ended June 30, 2016 and 2015 was \$7,244,640 and \$6,936,967, respectively.

Interest costs incurred during the years ended June 30, 2016 and 2015 were \$7,953,312 and \$8,212,831, respectively. Interest capitalized for the years ended June 30, 2016 and 2015 was \$0 and \$200,496, respectively.

NOTE 5 - LONG-TERM DEBT

	2016				Balance June 30, 2016	Due Within One Year
	Balance June 30, 2015	Additions	Reductions	Defeased		
Bonds and Other Noncurrent Liabilities Payable						
Revenue bonds	\$ 173,865,000	\$ -	\$(4,265,000)	\$ -	\$ 169,600,000	\$ 5,225,000
Bond premium	5,500,605	-	(320,081)	-	5,180,524	-
	<u>\$ 179,365,605</u>	<u>\$ -</u>	<u>\$(4,585,081)</u>	<u>\$ -</u>	<u>\$ 174,780,524</u>	<u>\$ 5,225,000</u>
	2015				Balance June 30, 2015	Due Within One Year
	Balance June 30, 2014	Additions	Reductions	Defeased		
Bonds and Other Noncurrent Liabilities Payable						
Revenue bonds	179,210,688	\$ 32,340,000	\$(4,509,918)	\$(33,175,770)	\$ 173,865,000	\$ 4,265,000
Bond premium	3,065,073	3,552,861	(1,117,329)	-	5,500,605	-
	<u>\$ 182,275,761</u>	<u>\$ 35,892,861</u>	<u>\$(5,627,247)</u>	<u>\$(33,175,770)</u>	<u>\$ 179,365,605</u>	<u>\$ 4,265,000</u>

Revenue Bonds

Bonds payable at June 30, 2016 and 2015 were comprised of the following issues:

	2016	2015
\$81,455,000 Water System Refunding Revenue Bonds of the City of Spartanburg, South Carolina, Series 2007A, dated February 7, 2007. Annual maturities of \$410,000 to \$6,900,000 maturing in 2028 with semi-annual interest of 4.00% to 5.00%. Bonds were issued to refund the Water System Refunding Revenue Bonds, Series 2007 and Series 2008.	\$ 65,710,000	\$ 69,505,000
\$31,200,000 Water System Revenue Bonds of the City of Spartanburg, South Carolina, Series 2007B, dated March 17, 2007. Annual maturities beginning 2029 of \$2,830,000 to \$4,180,000 maturing in 2037 with semi-annual interest of 4.30% to 5.00%. Bonds issued to fund improvements to the System.	4,180,000	4,180,000
\$33,935,000 City of Spartanburg, South Carolina Water System Revenue Bonds, Series 2009, dated December 15, 2009. Annual maturities beginning in 2029 of \$1,765,000 to \$7,435,000 maturing in 2039 with semi-annual interest of 4.625% to 5.00%. Bonds issued to fund improvements to the System.	33,935,000	33,935,000

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 5 - LONG-TERM DEBT - CONTINUED

Revenue Bonds - continued

	<u>2016</u>	<u>2015</u>
\$8,000,000 City of Spartanburg, South Carolina Water System Junior Lien Revenue Bonds, Series 2012, dated July 13, 2012. Annual maturities beginning in 2013 of \$450,000 to \$650,000 maturing in 2027 with semi-annual interest of 2.23%. Bonds issued to fund improvements to the System.	6,180,000	6,650,000
\$27,255,000 City of Spartanburg, South Carolina Water System Revenue Bonds, Series 2013, dated October 29, 2013. Annual maturities beginning in 2026 of \$380,000 to \$2,265,000 maturing in 2027 with semi-annual interest of 1.81% to 2.50%. Bonds issued to fund improvements to the System.	27,255,000	27,255,000
\$26,085,000 City of Spartanburg, South Carolina Water System Revenue Refunding Bonds, Series 2015A, dated June 23, 2015. Annual maturities beginning in 2028 of \$1,000,000 to \$3,860,000 maturing in 2035 with semi-annual interest of 1.22% to 5.00%. Bonds issued to refund the Series 2007B bonds.	26,085,000	26,085,000
\$6,255,000 City of Spartanburg, South Carolina Water System Revenue Refunding Bonds, Taxable Series 2015B, dated June 23, 2015. Annual maturities beginning in 2016 of \$375,000 to \$740,000 maturing in 2027 with semi-annual interest of 1.22% to 3.68%. Bonds issued to refund the Series 2010 bonds.	<u>6,255,000</u>	<u>6,255,000</u>
	169,600,000	173,865,000
Less: current portion	<u>(5,225,000)</u>	<u>(4,265,000)</u>
Total long-term revenue bonds payable	<u>\$ 164,375,000</u>	<u>\$ 169,600,000</u>

Debt service requirements to maturity including interest on all outstanding bonds as of June 30, 2016 are as follows:

Year Ending June 30	Principal	Interest	Total
2017	\$ 5,225,000	\$ 7,772,256	\$ 12,997,256
2018	5,500,000	7,544,037	13,044,037
2019	5,745,000	7,303,082	13,048,082
2020	6,005,000	7,047,355	13,052,355
2021	6,280,000	6,776,077	13,056,077
2022-2026	35,610,000	29,722,058	65,332,058
2027-2031	33,900,000	21,762,570	55,662,570
2032-2036	36,185,000	13,576,763	49,761,763
2037-2041	30,720,000	4,548,740	35,268,740
2042-2043	<u>4,430,000</u>	<u>309,644</u>	<u>4,739,644</u>
	<u>\$ 169,600,000</u>	<u>\$ 106,362,582</u>	<u>\$ 275,962,582</u>

There are a number of limitations and restrictions contained in the various debt instruments. The System is in compliance with all significant limitations and restrictions.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 6 - PRIOR YEAR DEFEASANCE OF DEBT AND ADVANCED REFUNDINGS

The proceeds from previous bonds issued that defeased certain revenue bonds in prior years were placed in an irrevocable trust to provide for all future debt payments on the old bonds. Accordingly, the trust accounts' assets and the liability for the defeased bonds are not included in the System's financial statements. At June 30, 2016 and 2015, \$27,020,000 and \$33,175,770 of bonds outstanding are considered defeased from prior years.

In prior years, advance refundings resulted in book losses that are being amortized over the original remaining life of the old bonds that were defeased or the life of the new debt, whichever is less. The unamortized losses at June 30, 2016 and 2015 are shown on the Statements of Net Position as deferred loss on refundings under deferred outflows of resources. Amortization has been included in interest expense and was \$464,029 and \$378,301 for the years ended June 30, 2016 and 2015, respectively.

NOTE 7 - CAPITAL CONTRIBUTIONS

Donated assets and/or grants provided to finance capital expenditures are accounted for as capital contributions. During the years ended June 30, 2016 and 2015, the System received the following as donated assets or to partially finance plant extensions or additions:

	2016	2015
Donated assets	\$ 755,199	\$ 229,994
Private industry and developers	141,951	-
Federal/State agencies	92,560	-
Participation fees	263,604	148,262
	<u>\$ 1,253,314</u>	<u>\$ 378,256</u>

NOTE 8 - PENSION PLAN

**Plan Description** - The System, as the employer, participates in the South Carolina Retirement System (SCRS) Plan - a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the South Carolina Public Employee Benefit Authority (PEBA). 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 on the Retirement Benefits' link on PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov).

**Benefits Provided** - SCRS provides retirement and disability benefits, and an incidental death benefit is 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, and PEBA does not have the authority to establish or amend benefit terms without a 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.

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.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 8 - PENSION PLAN - CONTINUED

**Benefits Provided - Continued**

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.

**Contributions** - Contribution requirements of the Plan are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual valuation, the PEBA Board may adopt and present to the Budget and Control Board for approval an increase in the employer and employee contribution rates, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9% of earnable compensation. Employees and employers (both Class II and III) are required to contribute 8.16% and 10.91%, respectively, of earnable compensation for the years ended June 30, 2016 and 2015, respectively. Employers also contribute an additional .15% of earnable compensation, if participating in the death benefit program.

Contributions to the Plan from the System were \$1,106,636 and \$1,011,873, for the years ended June 30, 2016 and 2015, respectively.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At June 30, 2016, the System reported a net pension liability of \$19,039,448 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2015. The June 30, 2015 total pension liability, net pension liability and sensitivity information are based on the July 1, 2014 actuarial valuation, which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2015, using generally accepted actuarial procedures. The System's proportion of the collective net pension liability is based on the System's contributions received by the pension plan relative to the total contributions received by the pension plan for all participating employers as of June 30, 2015. Based upon this information, the System's proportion of the collective net pension liability at June 30, 2016 and 2015 was .100390% and .102614%, respectively, a decrease of .00222% since June 30, 2014, the prior measurement date.

For the years ended June 30, 2016 and 2015, the System recognized pension expense of \$1,285,808 and \$1,237,771. At June 30, 2016 and 2015, the System reported deferred outflows of resources and deferred inflows of resources related to the pension as follows:

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 8 - PENSION PLAN - CONTINUED

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Continued**

2016		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,558,571	\$ -
Net difference between projected and actual earnings on pension plan investments	-	1,434,503
System contributions subsequent to the measurement date	1,110,276	-
Total	<u>\$ 2,668,847</u>	<u>\$ 1,434,503</u>
2015		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 500,601	\$ -
Net difference between projected and actual earnings on pension plan investments	-	1,489,434
System contributions subsequent to the measurement date	1,011,873	-
Total	<u>\$ 1,512,474</u>	<u>\$ 1,489,434</u>

\$1,110,276 reported as deferred outflows of resources related to pensions in 2016, resulting from System contributions subsequent to the measurement date is recognized as a reduction of the net collective pension liability in the year ended June 30, 2017. 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	
2017	\$ 15,704
2018	15,704
2019	131,893
2020	(287,369)
	<u>\$ (124,068)</u>



SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 8 - PENSION PLAN - CONTINUED

**Actuarial Assumptions** - The total pension liability, determined by the July 1, 2014 valuation, used the following actuarial assumptions and methods:

Actuarial cost method	Entry age normal
Inflation	2.75%
Salary increases	3.5% to 12.5% (varies on service and includes 2.75% inflation)
Benefit adjustments	lesser of 1% or \$500 annually
Investment rate of return	7.50% (includes 2.75% inflation)

Mortality assumptions are dependent upon the member's job category and gender (RP-2000). This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Actuarial assumptions and methods used in the July 1, 2014 valuation were based on the results of an actuarial experience study performed on data through June 30, 2010, and the next experience study performed on data through June 30, 2015, is currently underway.

The long-term expected rate of return on pension plan investments is based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems' Investment Commission in collaboration with its investment consultant. The actuarial long-term expected rates of return represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and then adding expected inflation, and is summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Short Term	5%	0.10%
Domestic Fixed Income	13%	0.42%
Global Fixed Income	9%	0.39%
Global Public Equity	31%	2.20%
Global Tactical Asset Allocation	10%	0.49%
Alternatives	32%	2.40%
Total Expected Real Return	100%	6.00%
Inflation for Actuarial Purposes		2.75%
Total Expected Nominal Return		8.75%

**Discount Rate** - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, the plan'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 WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 8 - PENSION PLAN - CONTINUED

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** – The following presents the System's proportionate share of the collective net pension liability calculated using the discount rate of 7.5%, as well as what the System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate:

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
System's proportionate share of the collective net pension liability	\$ 24,003,303	\$ 19,039,448	\$ 14,879,106

**Pension Plan Fiduciary Net Position** – Detailed information about the pension plan's fiduciary net position is available in the separately issued CAFR of the Pension Trust Funds publicly available on PEBA's Retirement Benefits' website at [www.peba.sc.gov](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to PEBA, P.O. Box 11960, Columbia, SC 29211-1960.

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS

**Plan Description** - The System, through its substantive commitment to provide other post-employment benefits (OPEB), maintains a single employer defined benefit plan to provide certain post-retirement healthcare benefits. Participants must be eligible to retire under the SCRS with a minimum of 12 year of service to receive benefits. The System explicitly provides a portion of the cost of coverage for retirees and the retirees are required to pay a portion of the premiums. The cost of coverage for pre-65 retirees is also implicitly subsidized by the System through the development of an average premium rate. After age 65, the System will pay for supplemental Medicare coverage for retirees. Spouses are not covered for pre or post-65 retirees. Because the Plan consists solely of the System's firm commitment to provide OPEB through the payment of premiums to a commercial insurance company, no stand-alone financial report is either available or generated.

**Funding Policy** - As of June 30, 2016 and 2015, there were 51 and 52 employee retirees receiving benefits, respectively. The Plan is financed on a pay-as-you-go basis and through separate contributions to the South Carolina Other Retirements Benefits Employers Trust (SC ORBET), a tax-exempt governmental trust under Internal Revenue Code 115. SC ORBET allows each member to choose a contribution amount into the trust based on the actuarially determined annual required contribution. Each member continues to contract with its current health provider for retiree health care coverage and the SC ORBET pays the benefits chosen by the employer directly to the employer or provider. Each member also shares in the SC ORBET's administrative and investment related expenses.

**Annual OPEB Cost and Net OPEB Obligation (Asset)** - The System's OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a closed period of 23 years. The following table presents the OPEB cost for the year, the amount actually contributed and changes in the OPEB Plan for the years ended June 30, 2016 and 2015:

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 9 – POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

**Annual OPEB Cost and Net OPEB Obligation (Asset) - Continued**

	<b>Net OPEB Obligation (Asset)</b>	
	2016	2015
Annual required contribution (ARC)	\$ 970,473	\$ 976,116
Interest on net OPEB obligation	1,691	1,857
Adjustment to ARC	(1,847)	(1,963)
Annual OPEB cost	970,317	976,010
Contributions made	(999,516)	(979,328)
Increase in net OPEB obligation (asset)	(29,199)	(3,318)
Net OPEB obligation (asset) - beginning of year	33,826	37,144
Net OPEB obligation (asset) - end of year	<u>\$ 4,627</u>	<u>\$ 33,826</u>

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation (asset) for the fiscal years ended June 30, 2016, 2015, 2014 are as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>% of OPEB Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2016	\$ 970,317	103.01%	\$ 4,627
June 30, 2015	976,010	100.34%	33,826
June 30, 2014	774,921	93.24%	37,144

**Funded Status and Funding Progress** - As of July 1, 2015, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	\$ 12,601,960
Actuarial value of plan assets	<u>3,779,282</u>
Unfunded actuarial accrued liability (UAAL)	<u>8,822,678</u>
Funded ratio (actuarial value of assets/AAL)	29.99%
Covered payroll (annual payroll of active employees covered by the plan)	9,245,649
UAAL as a percentage of covered payroll	95.43%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. These actuarial determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress and employer contributions for retiree health plan, presented as RSI following the notes to financial statements, will present multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 9 – POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

**Actuarial Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of benefit costs by the employer to a point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The ARC was determined as part of the July 1, 2015 actuarial valuation using the following methods and assumptions:

Actuarial cost method	Projected unit credit
Amortization method	level percent of pay, closed
Remaining amortization period	23
Inflation rate	2.75%
Asset valuation method	5-year smoothed market value, 80%-120% corridor
Investment return	5% (includes 2.75% inflation rate)
Projected salary increases	2.75%
Healthcare cost trend rate	
Pre-medicare	7.50%-5.00%
Post - medicare	5.50%-5.00%
Ultimate trend rate	5.00%
Year of ultimate trend rate	2020

NOTE 10 - DEFERRED COMPENSATION PLANS

Two deferred compensation plans are available to System 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 System 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 System has any liability for losses under the plan.

NOTE 11 - RISK MANAGEMENT

The System 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.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 11 - RISK MANAGEMENT – CONTINUED

The System 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 System 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.

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 System did not have settled claims that exceeded the System's insurance coverage in any of the past three years.

The System provides employee health care under a self-funded insurance program. Under this program, specific stop loss coverage for each claim in excess of \$95,000 and aggregate stop loss coverage, including Spartanburg Sanitary Sewer District, for claims in excess of \$3,880,243 is provided by a commercial insurance company. The following represents the change in unfilled, unpaid claims from July 1, 2015 to June 30, 2016 and July 1, 2014 to June 30, 2015:

	2016	Restated 2015
Beginning of the year liability	\$ 62,254	\$ 166,863
Claims	2,047,628	2,220,282
Claims payments	<u>(1,955,426)</u>	<u>(2,324,891)</u>
End of the year liability	<u>\$ 154,456</u>	<u>\$ 62,254</u>

The liability is included in accrued employee benefits on the Statements of Net Position.

NOTE 12 - PAYMENTS TO OTHER GOVERNMENTAL UNITS

On June 11, 1991, the System adopted a resolution to transfer a percentage of actual gross water revenue to the City of Spartanburg for services and return on investment beginning July 1, 1991. A new transfer agreement was adopted on June 10, 2013, providing that the System pay a flat fee of \$1,200,000 in 2014; \$1,100,000 in 2015; and \$1,000,000 each year from 2016 through 2018. Transfer amounts will henceforward increase for the years 2019 through 2028 by the Consumer Price Index of the preceding year. As part of the amended agreement, the System paid the City \$1,000,000 and \$1,100,000, for the years ended June 30, 2016 and 2015, respectively, as reported in the Statements of Revenues, Expenses and Changes in Net Position.

NOTE 13 - RELATED PARTY TRANSACTIONS

The System provides billing, collection and engineering services as well as other administrative functions for the Spartanburg Sanitary Sewer District. The System receives a fee for these services. These fees are presented on the Statements of Revenues, Expenses and Changes in Net Position as intercompany services.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 13 - RELATED PARTY TRANSACTIONS – CONTINUED

The fees were as follows:

	2016	2015
Billing and collection fees	\$ 391,788	\$ 310,572
Administrative fees	977,220	839,448
Labor reimbursements	590,566	538,639
Water quality and maintenance fee	332,340	361,701
Fleet services fee	159,440	148,584
Engineering	505,487	586,184
Operations fee	188,340	192,759
	<u>\$ 3,145,181</u>	<u>\$ 2,977,887</u>

The following amounts were due from (to) the Spartanburg Sanitary Sewer District at June 30, 2016 and 2015 and included in sewer and water collections payable to others and other receivables on the Statements of Net Position:

	2016	2015
User charges collected	\$ (2,058,055)	\$ (1,954,675)
Other payables	(595,543)	(572,400)
Miscellaneous receipts	982,397	858,684
	<u>\$ (1,671,201)</u>	<u>\$ (1,668,391)</u>

The System with the Spartanburg Sanitary Sewer District 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 System owns an undivided interest of the office building. At June 30, 2016 and 2015, the System's share is included in capital assets with a cost of \$527,474 and accumulated depreciation of \$405,291 and \$386,937, respectively.

The System also jointly owns with the Spartanburg Sanitary Sewer District 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, 2016 and 2015, the System's share is included in capital assets with a cost of \$1,564,887 and \$1,501,537 and accumulated depreciation of \$1,052,076 and \$998,279, respectively.

The System additionally with the Spartanburg Sanitary Sewer District jointly owns a laboratory building on Highway 295 By-pass in Spartanburg County. The facility provides office and laboratories for the industrial wastewater, backflow prevention and water quality services. At June 30, 2016 and 2015, the System's share is included in capital assets with a cost of \$882,354 and accumulated depreciation of \$305,403 and \$278,991, respectively.

NOTE 14 - 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 System 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.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 14 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES AND COMMITMENTS –  
CONTINUED

Underground Storage Tanks

The System has underground storage tanks that are subject to federal and state regulations concerning cleanup costs and third party liability claims. The System has 24 hour a day monitoring systems installed on all storage tanks. However, the System 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 \$2,144,752 and \$158,378 at June 30, 2016 and 2015, 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 System does not believe an estimate of potential liability, if any, is required in the accompanying financial statements.

NOTE 15 - 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.

NOTE 16 - PRIOR PERIOD ADJUSTMENT

During 2016, management discovered financial statements errors that caused an understatement in previously reported net position. The following details the adjustment and restatement to the previously reported amounts for June 30, 2015:

	As Previously Reported	Restated	Prior Period Adjustment
<b>Statements of Net Position</b>			
Deferred Outflows of Resources			
Deferred loss on refundings	\$ 2,066,371	\$ 6,246,655	\$ 4,180,284
Current Liabilities			
Accrued employee benefits	\$ 448,486	\$ 199,738	\$ (248,748)
Accrued interest expense	\$ 706,055	\$ 552,510	\$ (153,545)
Noncurrent Liabilities			
Long-term debt - net of current portion	\$ 170,580,077	\$ 175,100,605	\$ 4,520,528
Net Position	\$ 54,349,785	\$ 54,411,835	\$ 62,050
<b>Statements of Revenues, Expenses and Changes in Net Position</b>			
Operating expenses			
Operating expenses before depreciation	\$ 21,731,873	\$ 21,508,056	\$ (223,817)
Nonoperating revenues (expenses)			
Bond issuance costs	(200,911)	(387,781)	\$ 186,870
Interest and paying agent fees	(8,204,086)	(8,178,983)	\$ (25,103)

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2016 AND 2015

NOTE 17 – CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year 2015, the System adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (Statement No. 68) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68* (Statement No. 71). The provisions of Statement No. 68 and Statement No. 71 (the “standards”) relevant to the System relate to the changes in the accounting and financial reporting of pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The standards require government employers to recognize as a liability, for the first time, their long-term obligation for these pension benefits. The employer liability is to be measured as the difference between the present value of the projected benefit payments to be provided through the pension plan for past periods of service less the amount of pension plan’s fiduciary net position, with obligations for employers with cost sharing plans based on their proportionate share of contributions to the pension plan. The standards also require more immediate recognition of annual service cost, interest and changes in benefits for pension expense, require deferred outflows be presented for employer contributions made subsequent to the measurement date of the net pension liability, specify requirements for discount rates and actuarial methods, and provide changes to the disclosure requirements. The implementation of the standards required the System to record beginning net pension liability and the effects on the net position of contributions made by the System during the measurement period (fiscal year ended June 30, 2014). Beginning net position was restated as follows:

Net Position - Beginning of Year - as Previously Reported	\$ 67,958,761
Implementation of GASB Statement No. 68 - Net Pension Liability	(18,405,291)
Implementation of GASB Statement No. 71 - Deferred Outflows of Resources	<u>987,500</u>
Net Position - Beginning of Year - Restated	<u>\$ 50,540,970</u>



## **REQUIRED SUPPLEMENTARY INFORMATION**

SPARTANBURG WATER SYSTEM  
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS  
FOR RETIREE HEALTH PLAN  
JUNE 30, 2016

**Schedule of Funding Progress**

Actuarial Valuation Date July 1,	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded Actuarial Accrued Liability (UAAL) (B - A)	Ratio of Funded Obligation (A / B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B - A) / C)
2015	\$3,779,282	\$ 12,601,960	\$ 8,822,678	29.99%	\$ 9,245,649	95.43%
2013	2,817,188	11,741,497	8,924,309	23.99%	8,545,134	104.44%
2011	1,996,918	9,064,421	7,067,503	22.03%	8,293,665	85.22%

**Schedule of Employer Contributions**

Fiscal Year	Annual Required Contribution (ARC)	Actual Contributions	Percent Funded
2016	\$ 970,473	\$ 999,516	102.99%
2015	976,116	979,328	100.33%
2014	774,652	765,452	98.81%

SPARTANBURG WATER SYSTEM  
SCHEDULE OF THE SYSTEM'S PROPORTIONATE SHARE OF  
THE COLLECTIVE NET PENSION LIABILITY  
SOUTH CAROLINA RETIREMENT SYSTEM  
LAST TEN FISCAL YEARS\*

	<u>2016</u>	<u>2015</u>
System's Proportion of the Collective Net Pension Liability	0.100390%	0.102614%
System's Proportionate Share of the Collective Net Pension Liability	\$ 19,039,448	\$ 17,666,729
System's Covered-Employee Payroll	9,412,769	\$ 9,316,040
System's Proportionate Share of the Collective Net Pension Liability as a Percentage of its Covered-Employee Payroll	202.27%	189.64%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	56.99%	59.92%

\*The amounts presented were determined as of the prior fiscal years ending June 30.

SPARTANBURG WATER SYSTEM  
SCHEDULE OF THE SYSTEM'S CONTRIBUTIONS  
SOUTH CAROLINA RETIREMENT SYSTEM  
LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>
Statutorially Required Contributions	\$ 1,110,276	\$ 1,011,873
Contributions in Relation to the Statutorially Required Contributions	<u>1,110,276</u>	<u>1,011,873</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
System's Covered-Employee Payroll	\$ 10,038,663	\$ 9,412,769
Contributions as a Percentage of Covered-Employee Payroll	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.

### **III. STATISTICAL SECTION (UNAUDITED)**

# Statistical Section

**This part of the Spartanburg Water System's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.**

## **Contents**

### **Financial Trends**

These schedules contain trend information to help the reader understand how the System's financial performance and well-being have changed over time.

### **Revenue Capacity**

These schedules contain information to help the reader assess the System's most significant revenue source, user charges.

### **Debt Capacity**

These schedules present information to help the reader assess the affordability of the System's current levels of outstanding debt and the System's ability to issue additional debt in the future.

### **Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the System's financial activities take place.

### **Operating Information**

These schedules contain service and infrastructure data to help the reader understand how the information in the System's financial report relates to the services the System provides and the activities it performs.

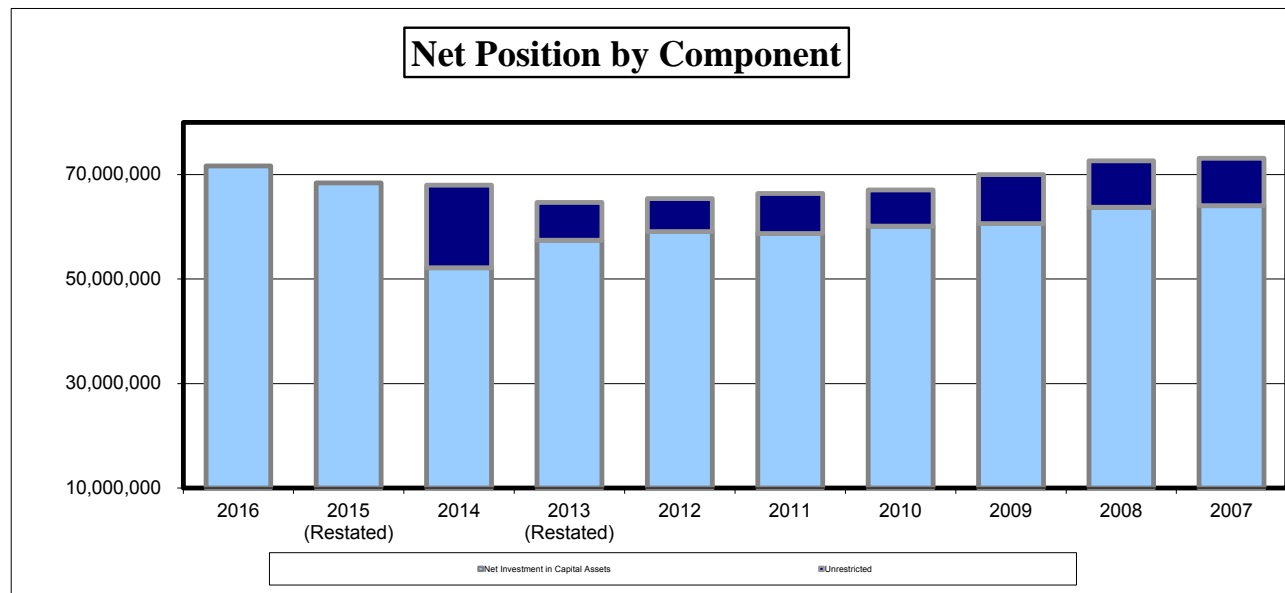
**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

# Financial Trends

## Net Position by Component

FY 2007 to FY 2016

Fiscal Year	Net Investment in Capital Assets		Unrestricted	Total Net Position
		Assets		
2016	\$	71,655,431	\$ (11,500,866)	60,154,565
2015 (Restated)		68,397,749	(13,985,914)	54,411,835
2014		52,165,078	15,793,683	67,958,761
2013 (Restated)		57,405,217	7,245,318	64,650,535
2012		59,081,079	6,299,720	65,380,799
2011		58,738,554	7,612,986	66,351,540
2010		60,115,947	6,915,159	67,031,106
2009		60,587,129	9,394,356	69,981,485
2008		63,733,920	8,889,079	72,622,999
2007		64,062,688	9,041,776	73,104,464



## Changes in Net Position

FY 2007 to FY 2016

	FY 2016	FY 2015 (Restated)	FY 2014	FY 2013 (Restated)	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
<b>Revenues</b>										
Operating revenues										
Water sales	\$ 37,898,737	\$ 35,785,630	\$ 32,429,507	\$ 30,250,185	\$ 29,881,758	\$ 28,683,192	\$ 25,677,639	\$ 24,901,920	\$ 25,814,825	\$ 24,485,067
Tap & meter sales	588,520	471,340	383,845	327,320	347,942	309,252	325,772	402,448	620,527	737,460
Other operating revenues	1,353,879	1,286,424	1,356,221	1,214,146	1,049,149	997,868	847,918	831,544	823,325	666,717
	<u>39,841,136</u>	<u>37,543,394</u>	<u>34,169,573</u>	<u>31,791,651</u>	<u>31,278,849</u>	<u>29,990,312</u>	<u>26,851,329</u>	<u>26,135,912</u>	<u>27,258,677</u>	<u>25,889,244</u>
Nonoperating revenues										
Intercompany services	3,145,181	2,977,887	2,961,169	2,556,100	2,360,476	2,518,702	2,298,700	2,280,855	1,836,222	1,921,954
Other nonoperating revenues	1,137,436	1,083,115	1,046,052	917,530	925,005	795,806	942,782	1,071,881	2,195,199	1,678,311
	<u>4,282,617</u>	<u>4,061,002</u>	<u>4,007,221</u>	<u>3,473,630</u>	<u>3,285,481</u>	<u>3,314,508</u>	<u>3,241,482</u>	<u>3,352,736</u>	<u>4,031,421</u>	<u>3,600,265</u>
Total revenues	<u>44,123,753</u>	<u>41,604,396</u>	<u>38,176,794</u>	<u>35,265,281</u>	<u>34,564,330</u>	<u>33,304,820</u>	<u>30,092,811</u>	<u>29,488,648</u>	<u>31,290,098</u>	<u>29,489,509</u>
<b>Expenses</b>										
Operating expenses, excluding depreciation	23,292,434	21,508,056	20,746,447	20,963,353	20,834,329	19,662,618	19,645,463	20,389,176	20,207,039	18,692,946
Depreciation expense	7,244,640	6,936,967	6,527,267	6,040,620	5,834,829	5,615,089	5,491,953	5,385,628	5,175,814	4,688,325
Nonoperating expenses	9,097,263	9,666,764	8,041,001	7,641,109	9,087,122	9,240,098	8,392,026	7,438,758	7,705,544	5,669,016
Total expenses	<u>39,634,337</u>	<u>38,111,787</u>	<u>35,314,715</u>	<u>34,645,082</u>	<u>35,756,280</u>	<u>34,517,805</u>	<u>33,529,442</u>	<u>33,213,562</u>	<u>33,088,397</u>	<u>29,050,287</u>
Excess (deficiency), before capital contributions	4,489,416	3,492,609	2,862,079	620,199	(1,191,950)	(1,212,985)	(3,436,631)	(3,724,914)	(1,798,299)	439,222
Capital contributions	1,253,314	378,256	446,147	649,697	221,209	533,419	486,252	1,083,400	1,316,834	2,098,945
Increase (decrease) in net position	5,742,730	3,870,865	3,308,226	1,269,896	(970,741)	(679,566)	(2,950,379)	(2,641,514)	(481,465)	2,538,167
Net position, beginning of year, restated (2015)	54,411,835	50,540,970	64,650,535	65,380,799	66,351,540	67,031,106	69,981,485	72,622,999	73,104,464	70,566,297
Change in accounting principle	-	-	-	(2,000,160)	-	-	-	-	-	-
Net position at beginning of year, restated	-	-	-	63,380,639	-	-	-	-	-	-
Net position, end of year	<u>\$ 60,154,565</u>	<u>\$ 54,411,835</u>	<u>\$ 67,958,761</u>	<u>\$ 64,650,535</u>	<u>\$ 65,380,799</u>	<u>\$ 66,351,540</u>	<u>\$ 67,031,106</u>	<u>\$ 69,981,485</u>	<u>\$ 72,622,999</u>	<u>\$ 73,104,464</u>



## Revenues By Source

FY 2007 to FY 2016

Fiscal Year	Operating Revenues						
	Water Sales	Fire Protection Charges	Service Charges	Cut-off	Tap & Meter Sales	New Account Fees	Miscellaneous
2016	\$ 37,898,737	\$ 285,324	\$ 361,531	\$ 361,531	\$ 588,520	\$ 157,350	\$ 549,674
2015 (Restated)	35,785,630	281,788	393,266	393,266	471,340	187,124	424,246
2014	32,429,507	279,379	397,832	397,832	383,845	193,333	485,677
2013 (Restated)	30,250,185	277,574	406,718	406,718	327,320	167,293	362,561
2012	29,881,758	273,261	289,627	289,627	347,942	119,855	366,406
2011	28,683,192	271,226	281,063	281,063	309,252	109,530	336,049
2010	25,677,639	267,027	245,886	245,886	325,772	113,960	221,045
2009	24,901,920	262,885	270,808	270,808	402,448	121,808	176,043
2008	25,814,825	255,385	307,538	307,538	620,527	136,715	123,687
2007	24,485,067	181,708	267,696	267,696	737,460	139,522	77,791

Fiscal Year	Non-Operating Revenues						Total Revenues
	Capacity Fees	Lake Revenue	Interest Income	Intercompany Services	Administrative Income	Miscellaneous Non-Oper. Revenue	
2016	\$ 230,890	\$ 373,508	\$ 6,488	\$ 3,145,181	\$ 229,517	\$ 297,033	\$ 44,123,753
2015 (Restated)	189,404	362,734	14,350	2,977,887	245,655	270,972	41,604,396
2014	143,421	322,194	2,946	2,961,169	230,444	347,047	38,176,794
2013 (Restated)	123,013	320,324	30,103	2,556,100	233,053	211,037	35,265,281
2012	137,191	334,992	72,478	2,360,476	202,409	177,935	34,564,330
2011	87,983	333,741	127,275	2,518,702	180,273	66,534	33,304,820
2010	121,640	357,028	183,567	2,298,700	173,522	107,025	30,092,811
2009	150,015	322,541	373,490	2,280,855	173,684	52,151	29,488,648
2008	304,700	341,348	1,316,797	1,836,222	203,409	28,945	31,290,098
2007	412,225	307,644	666,162	1,921,954	251,559	40,721	29,489,509

### Operating Expenses FY 2007 to FY 2016

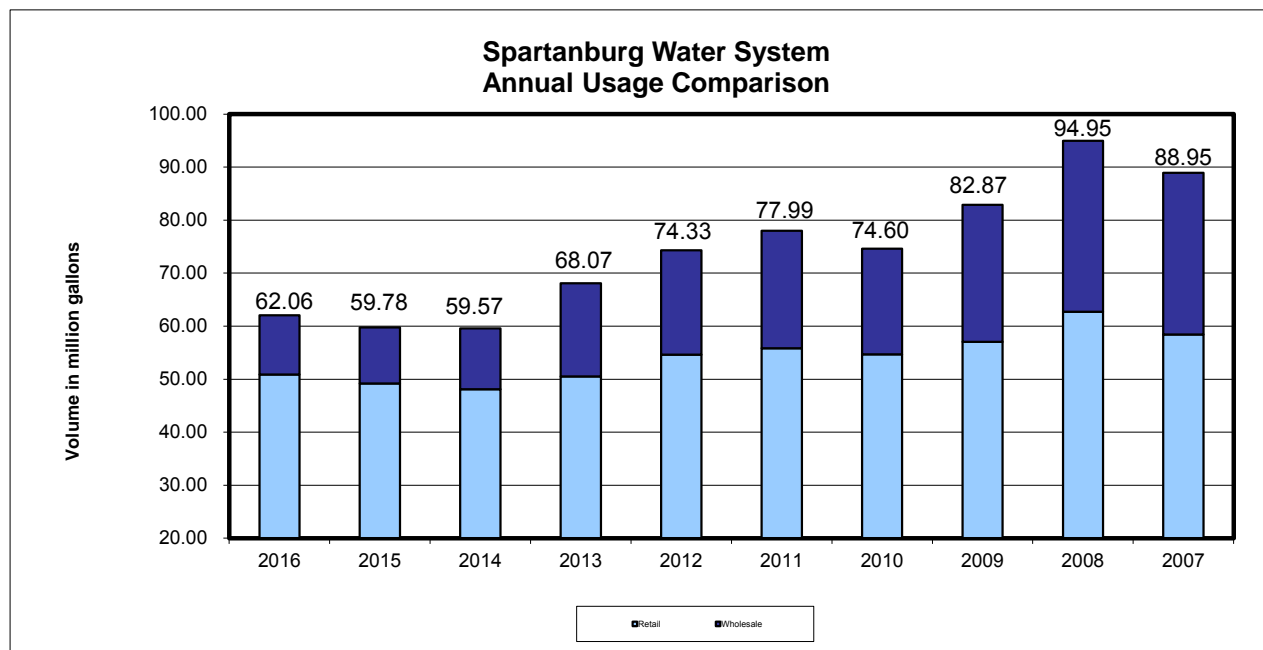
Fiscal Year	Personnel Cost	Supplies and Maintenance	Outside Services	Educational and Training	Company Expenses	Depreciation Expense	Total Expenses
2016	\$ 14,013,276	\$ 4,828,118	\$ 3,539,437	\$ 413,442	\$ 498,161	\$ 7,244,640	30,537,074
2015 (Restated)	13,868,014	3,853,896	3,026,101	360,093	399,952	6,936,967	28,445,023
2014	13,192,296	3,804,410	3,030,565	338,007	381,169	6,527,267	27,273,714
2013 (Restated)	12,989,385	3,844,526	3,502,959	369,864	256,619	6,040,620	27,003,973
2012	12,600,577	3,992,350	3,576,263	334,541	330,598	5,834,829	26,669,158
2011	12,064,622	3,680,314	3,120,689	296,297	500,696	5,615,089	25,277,707
2010	12,308,285	3,687,009	2,957,178	243,600	449,391	5,491,953	25,137,416
2009	12,475,731	3,987,037	3,239,831	235,911	450,666	5,385,628	25,774,804
2008	11,423,906	4,605,169	3,306,285	365,940	505,739	5,175,814	25,382,853
2007	11,203,410	4,115,390	2,608,403	339,593	426,150	4,688,325	23,381,271

# Revenue Capacity

## Annual Billed Usage

FY 2007 to FY 2016

Fiscal Year	Volume in Million Gallons		
	Wholesale	Retail	Total
2016	11.20	50.86	62.06
2015	10.58	49.20	59.78
2014	11.47	48.10	59.57
2013	17.54	50.53	68.07
2012	19.70	54.63	74.33
2011	22.13	55.86	77.99
2010	19.93	54.67	74.60
2009	25.81	57.06	82.87
2008	32.24	62.71	94.95
2007	30.52	58.43	88.95



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**Historical Volume Rate Information      FY 2007 to FY 2016**

Fiscal Year	Retail		Wholesale
	Inside City	Outside City	
	Block 1	Block 1	
2016	\$ 0.3650	\$ 0.6390	\$ 0.1511
2015	0.3650	0.6390	0.1511
2014	0.3570	0.6248	0.1511
2013	0.3182	0.5570	0.1511
2012	0.2848	0.4984	0.1484
2011	0.2607	0.4561	0.1457
2010	0.2380	0.4164	0.1430
2009	0.2126	0.3721	0.1430
2008	0.1898	0.3322	0.1430
2007	0.1898	0.3322	0.1430

**Number of System Customers****FY 2007 to FY 2016**

Fiscal Year	Retail			Wholesale	Number of Customers
	Residential	Commercial	Industrial		
2016	54,357	6,299	55	5	60,716
2015	53,725	6,222	54	5	60,006
2014	53,277	6,168	54	5	59,504
2013	52,908	6,128	54	6	59,096
2012	52,586	6,033	82	6	58,707
2011	52,574	5,657	86	6	58,323
2010	52,535	5,595	90	6	58,226
2009	52,557	5,557	90	6	58,210
2008	51,481	5,438	92	7	57,018
2007	51,293	5,377	92	7	56,769

## Ten Largest Retail Customers

FY 2007 &amp; FY 2016

Customer	2007				2016			
	Consumption (100g)	Total Annual Revenue	Percent of 2007 Water Sales Revenue	2007 Ranking	Consumption (100g)	Total Annual Revenue	Percent of 2016 Water Sales Revenue	2016 Ranking
Auriga Polymers, Inc. (KoSa)	529,432	\$ 952,626	3.89%	1	2,858,045	\$ 1,420,567	3.75%	1
Milliken & Company	192,354	470,320	1.92%	2	1,077,068	688,246	1.82%	2
Spartanburg Regional Medical Center	132,844	198,956	0.81%	3	997,265	366,321	0.97%	3
Pet Inc. Dairy Division	89,429	223,895	0.91%	6	781,135	499,145	1.32%	4
Wofford College	95,297	143,565	0.59%	5	732,432	267,394	0.71%	5
Michelin North America	88,377	221,208	0.90%	7	634,654	405,544	1.07%	6
BASF Corporation	-	-	-	-	530,247	338,828	0.89%	7
R R Donnelley & Sons	78,108	196,344	0.80%	8	523,260	334,363	0.88%	8
Spartanburg Sanitary Sewer District	-	-	-	-	501,304	319,528	0.84%	9
Spartanburg Housing Authority	95,841	161,529	0.66%	4	451,312	170,255	0.45%	10
Kohler Company	74,165	185,700	0.76%	9	-	-	-	-
Mary Black Memorial Hospital	57,755	132,810	0.54%	10	-	-	-	-
<b>TOTALS</b>	<b>1,433,602</b>	<b>\$ 2,886,953</b>	<b>11.78%</b>		<b>9,086,722</b>	<b>\$ 4,810,191</b>	<b>12.69%</b>	

## Wholesale Water Customers in Charge and Volume Order

FY 2016

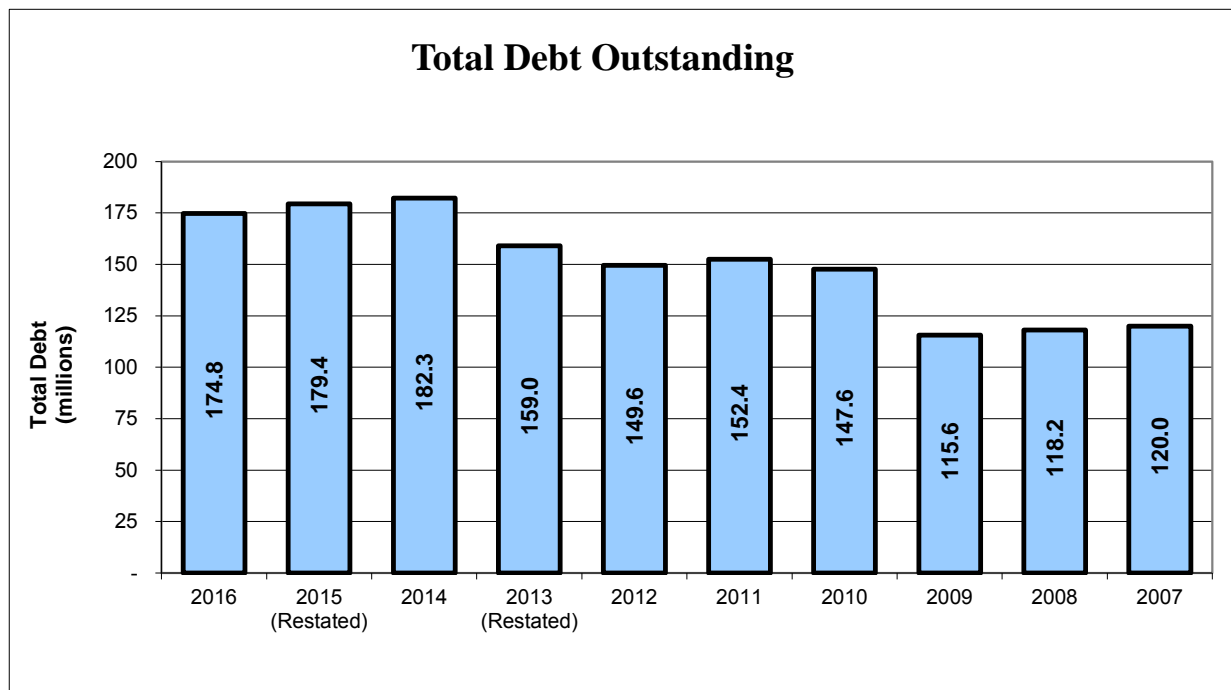
CUSTOMER	Billable Consumption (100g)	Percent to Total Consumption	Billable Charges	Base Charges	Total Charges	Percent to Total Water Sales Revenue
Liberty-Chesnee-Fingerville Water District	5,031,500	8.42%	\$ 780,386	\$ 6,126	\$ 786,512	2.20%
Goucher Water Company	2,064,939	3.45%	320,272	1,781	322,053	0.90%
Metropolitan Sub-District "B"	2,022,850	3.38%	313,744	3,022	316,766	0.89%
Meansville-Riley Water Company	1,562,083	2.61%	246,898	1,544	248,442	0.69%
Town of Jonesville	522,662	0.87%	81,065	1,511	82,576	0.23%
	<b>11,204,034</b>	<b>18.73%</b>	<b>\$ 1,742,365</b>	<b>\$ 13,984</b>	<b>\$ 1,756,349</b>	<b>4.91%</b>



# Debt Capacity

**Debt Outstanding****FY 2007 to FY 2016**

Fiscal Year	Revenue Bonds	Note Payable	Total Outstanding Debt	Per Capita*	As Share of Personal Income
2016	\$ 174,780,524	\$ -	174,780,524	588	1.75%
2015 (Restated)	179,365,605	-	179,365,605	611	1.75%
2014	182,275,761	-	182,275,761	626	1.79%
2013 (Restated)	158,965,621	12,500	158,978,121	551	1.64%
2012	149,528,318	62,500	149,590,818	523	1.64%
2011	152,334,685	112,500	152,447,185	536	1.70%
2010	147,478,536	162,500	147,641,036	515	1.75%
2009	115,353,621	212,500	115,566,121	412	1.35%
2008	117,920,841	262,500	118,183,341	429	1.43%
2007	119,698,539	312,500	120,011,039	445	1.53%



\* Per Capita number is based on the Spartanburg County population. Spartanburg Water System serves 60,711 retail customers inside and outside the City of Spartanburg. Additionally, 5 wholesale customers and served by the System, including 3 in Spartanburg County and 2 in adjoining counties.

## Historical Statements of Revenues, Expenses, Debt Service and Debt Service Coverage

FY 2007 to FY 2016

	2016	2015 (Restated)	2014	2013 (Restated)	2012	2011	2010	2009	2008	2007
<b>Net Income</b>										
Operating revenues	\$ 39,841,136	\$ 37,543,394	\$ 34,169,573	\$ 31,791,651	\$ 31,278,849	\$ 29,990,312	\$ 26,851,329	\$ 26,135,912	\$ 27,258,677	\$ 25,889,244
Operating expenses before depreciation and amortization	(23,292,434)	(21,508,056)	(20,746,447)	(20,963,353)	(20,834,329)	(19,662,618)	(19,645,463)	(20,389,176)	(20,207,039)	(18,692,946)
Operating income before depreciation and amortization	16,548,702	16,035,338	13,423,126	10,828,298	10,444,520	10,327,694	7,205,866	5,746,736	7,051,638	7,196,298
Depreciation	(7,244,640)	(6,936,967)	(6,527,267)	(6,040,620)	(5,834,829)	(5,615,089)	(5,491,953)	(5,385,628)	(5,175,814)	(4,688,325)
Amortization of bond cost	-	-	(176,290)	-	(110,011)	(148,785)	(154,964)	(81,665)	(81,665)	(65,563)
Operating income	9,304,062	9,098,371	6,719,569	4,787,678	4,499,680	4,563,820	1,558,929	279,443	1,794,159	2,442,410
Nonoperating Revenues	4,282,617	4,061,002	4,007,220	3,473,630	3,285,481	3,314,508	3,241,482	3,352,736	4,031,421	3,600,265
Nonoperating Expenses	(8,097,263)	(8,566,764)	(6,664,711)	(6,241,109)	(7,577,111)	(7,691,313)	(6,837,042)	(5,957,093)	(6,099,197)	(4,155,232)
Payments to Other Governments	(1,000,000)	(1,100,000)	(1,200,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,524,682)	(1,448,221)
Capital Contributions	1,253,314	378,255	446,147	649,697	221,209	533,419	486,252	1,083,400	1,316,834	2,098,945
<b>Net Income (Loss) Per Financial Statements</b>	<b>\$ 5,742,730</b>	<b>\$ 3,870,865</b>	<b>\$ 3,308,225</b>	<b>\$ 1,269,896</b>	<b>\$ (970,741)</b>	<b>\$ (679,566)</b>	<b>\$ (2,950,379)</b>	<b>\$ (2,641,514)</b>	<b>\$ (481,465)</b>	<b>\$ 2,538,167</b>
<b>Income Available for Debt Service</b>										
Net Income (Loss) Per Financial Statements	\$ 5,742,730	\$ 3,870,865	\$ 3,308,225	\$ 1,269,896	\$ (970,741)	\$ (679,566)	\$ (2,950,379)	\$ (2,641,514)	\$ (481,465)	\$ 2,538,167
Less: (Gain)/loss on sale of fixed assets	(80,853)	(76,468)	(53,650)	(65,388)	(25,597)	(5,728)	(61,702)	954	40,474	4,959
Less: Restricted investment income	(2,639)	(672)	(1,894)	(7,552)	(32,845)	(79,324)	(133,225)	(294,845)	(955,002)	(328,938)
Less: Capital contributions	(1,253,314)	(378,256)	(446,147)	(649,697)	(221,209)	(533,419)	(486,252)	(1,083,400)	(1,316,834)	(2,098,945)
Less: Transfers into rate stabilization fund	200,000	400,000	-	-	600,000	500,000	-	-	975,000	330,000
Plus: Transfers out of rate stabilization fund	-	-	290,000	700,000	-	-	220,000	225,000	-	-
Plus: Excess transfers in over out	(200,000)	(400,000)	-	-	(600,000)	(500,000)	-	-	(975,000)	(330,000)
Plus: Depreciation	7,244,640	6,936,967	6,527,267	6,040,620	5,834,829	5,615,089	5,491,953	5,385,628	5,175,814	4,688,325
Plus: Tap and meter purchase	-	-	-	-	-	-	-	445,304	705,219	633,357
Plus: Interest expense	8,097,263	8,178,983	6,638,374	6,182,991	7,557,925	7,670,534	6,819,730	5,939,174	6,068,716	4,134,041
Plus: Payments to other governments	1,000,000	1,100,000	1,200,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,524,682	1,448,221
Plus: Amortization of bond cost	-	-	-	-	110,011	148,785	154,964	81,665	81,665	65,563
Plus: Bond Issuance Costs	-	387,781	-	-	-	-	-	-	-	-
Plus: Pension Adjustment	161,415	225,898	-	-	-	-	-	-	-	-
<b>Net Earnings per Revenue Bond Covenant</b>	<b>\$ 20,909,242</b>	<b>\$ 20,245,098</b>	<b>\$ 17,462,175</b>	<b>\$ 14,870,870</b>	<b>\$ 13,652,373</b>	<b>\$ 13,536,371</b>	<b>\$ 10,455,109</b>	<b>\$ 9,457,966</b>	<b>\$ 10,843,269</b>	<b>\$ 11,084,750</b>
<b>Revenue Bond Debt Service</b>	<b>\$ 12,151,334</b>	<b>\$ 12,896,811</b>	<b>\$ 10,999,790</b>	<b>\$ 11,578,355</b>	<b>\$ 9,533,853</b>	<b>\$ 8,723,418</b>	<b>\$ 7,915,154</b>	<b>\$ 6,990,341</b>	<b>\$ 6,338,601</b>	<b>\$ 5,137,801</b>
<b>Revenue Bond Debt Service Coverage</b>	<b>1.72</b>	<b>1.57</b>	<b>1.59</b>	<b>1.28</b>	<b>1.43</b>	<b>1.55</b>	<b>1.32</b>	<b>1.35</b>	<b>1.71</b>	<b>2.16</b>

# Demographic and Economic Information

**Spartanburg County Demographic Statistics****CY 2006 to CY 2015**

Calendar Year	(1) July 1 Population	Personal Income (1)		(3) Median Age	(4) School Enrollment	(5) Unemployment Rate
		Total	Per Capita			
2015	297,302	\$ 10,738,530,000	\$ 33,600 *	38.4	47,298	5.8%
2014	293,542	10,252,621,000	34,946 *	38.5	47,306	6.4%
2013	290,969	10,033,000,000	35,040	38.5	46,846	7.3%
2012	288,745	9,819,000,000	33,518	35.5	44,174	8.8%
2011	286,236	9,241,000,000	31,873	38.1	42,552	9.5%
2010	284,307	8,959,000,000	31,512	37.7	44,398	11.7%
2009	286,822	8,460,000,000	29,494	37.5	43,036	12.4%
2008	280,738	8,618,609,000	30,506	37.3	43,431	6.9%
2007	275,285	8,304,934,000	30,012	37.0	43,754	5.6%
2006	269,546	7,885,832,000	29,127	36.8	41,701	6.6%

Data Sources:

- (1) U.S. Census Bureau of Economic Analysis [www.bea.gov](http://www.bea.gov) (CA1-3) & [www.census.gov](http://www.census.gov)  
\* SC Appalachian Council of Governments
- (3) U.S. Census Bureau via South Carolina <https://ask.census.gov>  
Division of Research & Statistical Services
- (4) South Carolina Department of Education - 135-DAY PUPIL ACCOUNTING REPORT FY2009  
[http://ed.sc.gov/agency/offices/finance/student\\_data](http://ed.sc.gov/agency/offices/finance/student_data)
- (5) U.S. Department of Labor, Bureau of Labor and Statistics

**Spartanburg County, South Carolina Major Employers and Changes****FY 2016 & FY 2006**

Company Name	Business/Product	Employees and % of Workforce			
		2016	%	2006	%
BMW Manufacturing Corporation	Automotive manufacturer	8,000	5.8%	3000+	3.4%
Spartanburg County Schools	Public school system	6,722	4.8%	5000+	4.3%
Spartanburg Regional Medical Center	Hospital	6,851	4.9%	3000+	3.9%
State of South Carolina	State government	2,156	1.6%	2000-2499	1.9%
Miliken & Company	Research & development on yarns, chemicals	591	0.4%	N/A*	1.4%
Spartanburg County	County government, courts, law enforcement	1,549	1.1%	1250-1499	1.1%
Mary Black Memorial Hospital	Private hospital	1,095	0.8%	1000-1249	0.8%
Michelin Tire Company	Radial truck tire manufacturer	1,163	0.8%	900-999	0.9%
Sealed Air (Cryovac)	Mfg. of plastic packaging material	350	0.3%	N/A*	0.9%
Bi-Lo	Retail grocery	762	0.5%	N/A*	0.8%
Inman Mills	Man made woven fabric	682	0.5%	N/A*	0.0%
Spartanburg Steel	Fabricate structural metal products	494	0.4%	600-699	0.5%
R. R. Donnelley	Catalog printing & binding	434	0.3%	500-599	0.5%
Kohler Company	Manufacturer of china plumbing fixtures	583	0.4%	900-999	0.7%
Tietex Corporation	Mfg. of non-woven material	331	0.2%	600-699	0.5%
Contec Inc.	Wiper manufacturer	413	0.3%	N/A*	0.0%
BMG Entertainment	Distributor of records, CD's, & tapes	N/A*	0.0%	600-699	0.5%

Data Source:

Spartanburg County Economic Development Corporation &amp; individual employers

(N/A\*) Data unavailable

# Operating Information

**Schedule of Capacity Fees and User Charges****FY 2016****A. Capacity Fees**

Meter Size	Capacity Fee
5/8"	\$ 300
1"	\$ 750
1 1/2"	\$ 1,500
2"	\$ 2,400
3"	*
4"	*
6" and up	*

\* Negotiated by the System on an individual basis.

**B. Volume Charge Schedule**

FY 2016 (per 100g)		FY 2015 (per 100g)		FY 2014 (per 100g)	
Inside City	Outside City	Inside City	Outside City	Inside City	Outside City
\$ 0.3650	\$ 0.6390	\$ 0.3650	\$ 0.6390	\$ 0.3570	\$ 0.6248

**C. Base Charge Schedule**

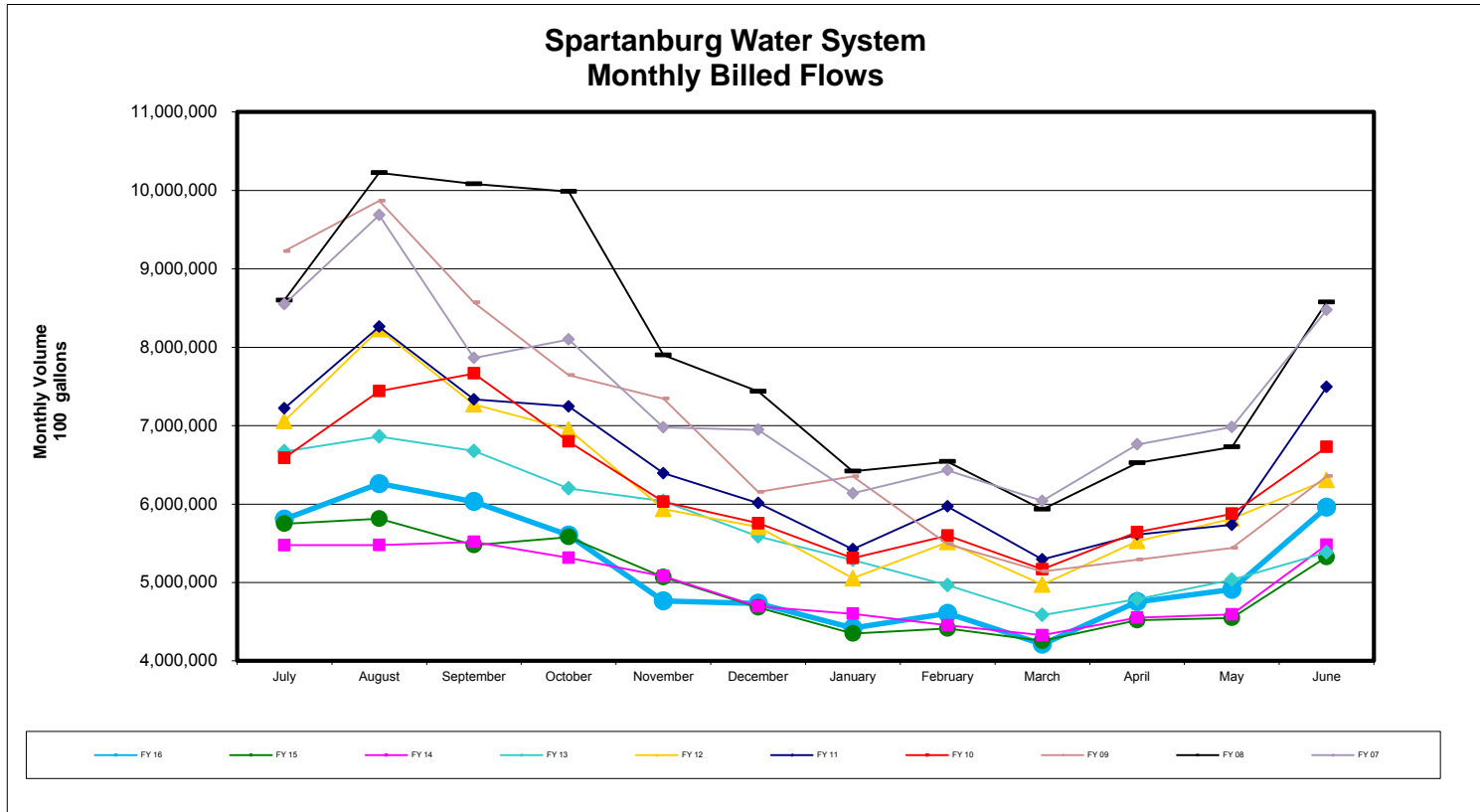
Meter Size	Meter Master Code	Monthly		Bi-Monthly	
		Inside	Outside	Inside	Outside
5/8	1	\$ 6.96	\$ 10.44	\$ 10.85	\$ 16.28
1	2	\$ 16.13	\$ 24.19	\$ 28.05	\$ 42.06
1 1/2	3	\$ 31.40	\$ 47.10	\$ 57.69	\$ 86.45
2	4	\$ 49.73	\$ 74.60	\$ 93.90	\$ 140.84
3	5	\$ 92.50	\$ 138.75	\$ 179.06	\$ 268.57
4	6	\$ 153.60	\$ 230.40	\$ 300.70	\$ 451.12
6	7	\$ 306.35	\$ 459.53	\$ 606.11	\$ 909.09
8	8	\$ 501.87	\$ 752.81	\$ 996.94	\$ 1,495.44
10	9	\$ 752.38	\$ 1,128.57	\$ 1,497.85	\$ 2,246.81



Monthly Billed Flows

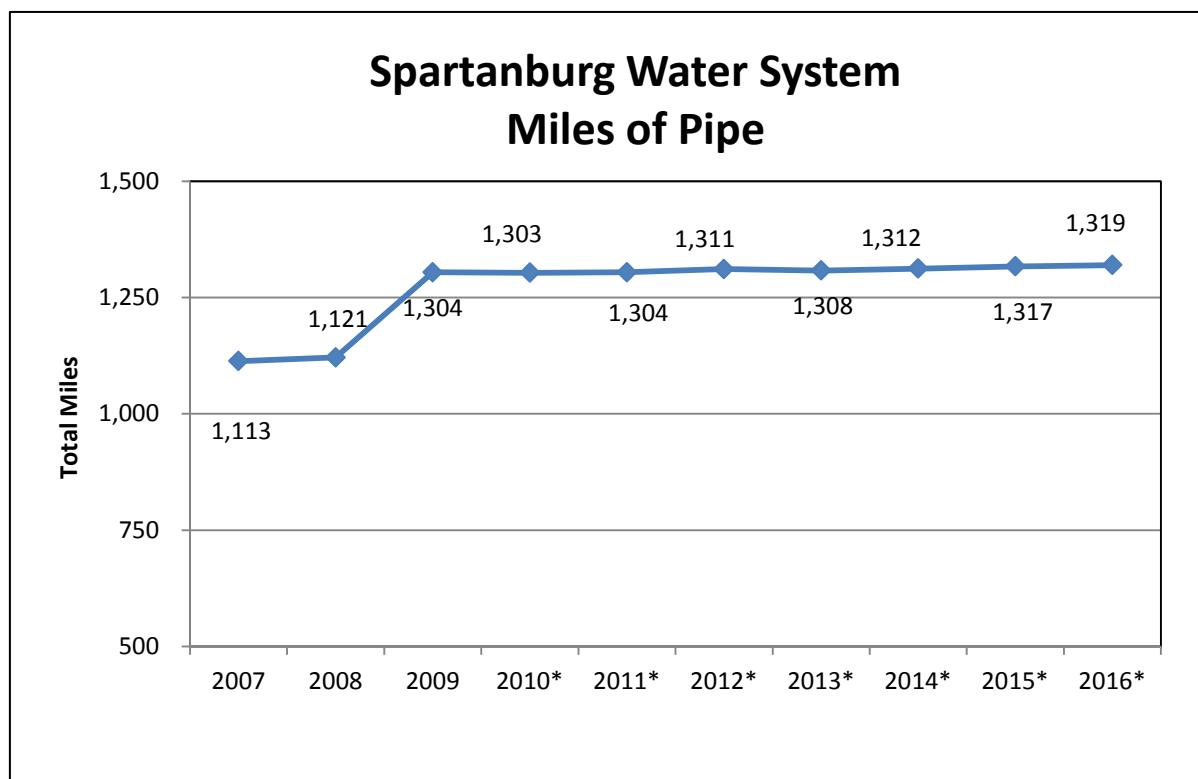
FY 2007 to FY 2016

	FY 16	FY 15	FY 14	FY 13	FY 12	FY 11	FY 10	FY 09	FY 08	FY 07
July	5,807,015	5,749,777	5,475,433	6,670,367	7,058,343	7,220,466	6,587,821	9,224,770	8,598,752	8,548,488
August	6,260,429	5,813,737	5,477,610	6,861,036	8,227,872	8,260,630	7,439,696	9,865,489	10,225,485	9,684,407
September	6,032,274	5,476,039	5,517,310	6,675,780	7,269,053	7,332,856	7,665,060	8,569,909	10,081,028	7,863,150
October	5,605,127	5,579,288	5,313,389	6,198,231	6,948,143	7,243,836	6,796,987	7,641,625	9,985,948	8,099,564
November	4,763,743	5,066,774	5,080,431	6,035,792	5,935,765	6,392,802	6,030,307	7,344,882	7,897,506	6,979,223
December	4,734,020	4,682,253	4,693,878	5,585,786	5,707,798	6,013,301	5,754,721	6,152,674	7,437,775	6,947,236
January	4,418,270	4,349,883	4,601,511	5,286,420	5,053,001	5,425,080	5,309,632	6,353,834	6,419,267	6,136,389
February	4,605,049	4,412,636	4,453,878	4,964,144	5,514,223	5,968,194	5,598,288	5,490,377	6,540,393	6,431,639
March	4,212,417	4,255,821	4,326,777	4,584,177	4,971,912	5,293,037	5,168,228	5,140,774	5,931,935	6,039,587
April	4,754,348	4,520,737	4,551,407	4,788,188	5,527,412	5,612,120	5,641,800	5,291,715	6,524,030	6,760,747
May	4,911,028	4,549,681	4,592,912	5,036,109	5,812,840	5,734,609	5,875,595	5,440,936	6,727,831	6,979,897
June	5,958,364	5,325,321	5,481,856	5,383,932	6,306,474	7,493,189	6,728,006	6,354,560	8,576,165	8,475,344
	62,062,084	59,781,947	59,566,392	68,069,962	74,332,836	77,990,120	74,596,141	82,871,545	94,946,115	88,945,671



**Miles of Pipe****FY 2007 to FY 2016**

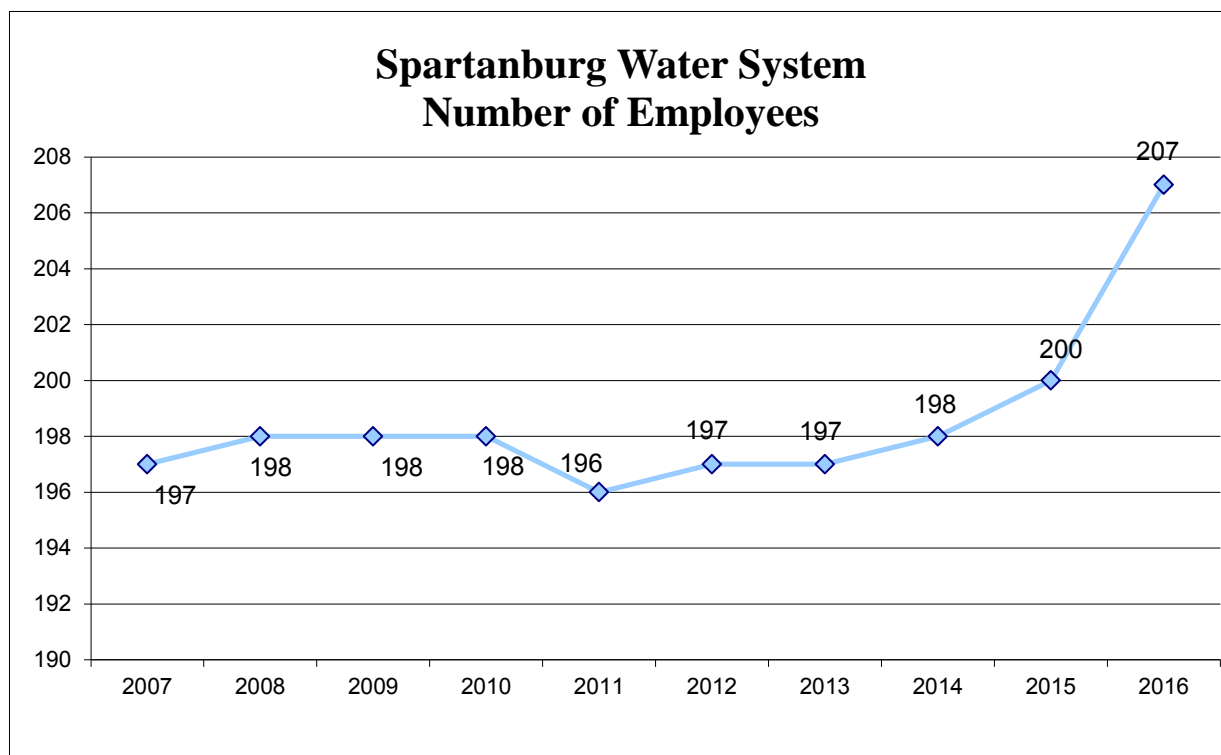
Fiscal Year	Miles of Pipe
2016*	1,319
2015*	1,317
2014*	1,312
2013*	1,308
2012*	1,311
2011*	1,304
2010*	1,303
2009	1,304
2008	1,121
2007	1,113



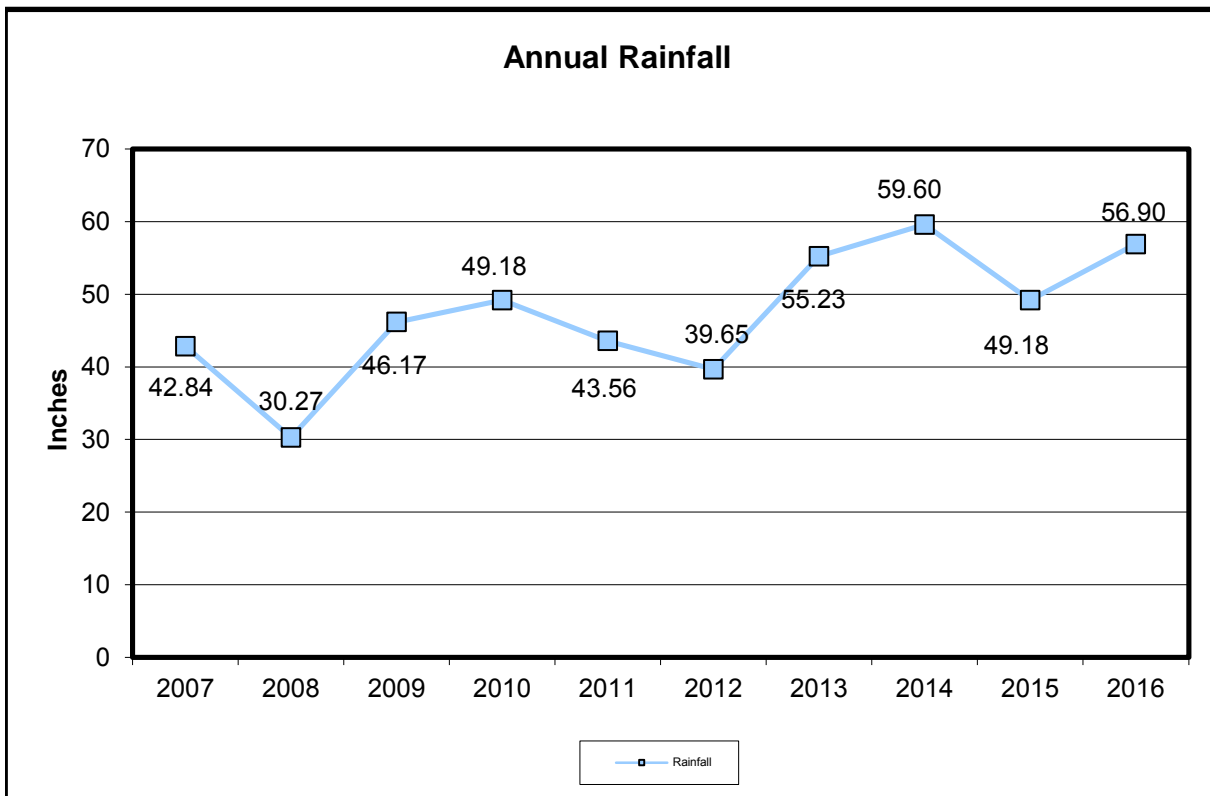
\* The change in the miles of pipe graph is due to the net effect of additional miles, less updates for abandonment and deletion in the GIS Infrastructure total.

**Number of Employees****FY 2007 to FY 2016**

Fiscal Year	Number of Employees
2016	207
2015	200
2014	198
2013	197
2012	197
2011	196
2010	198
2009	198
2008	198
2007	197



\* Numbers based on Operating Budget Employee Count.

**Annual Rainfall****FY 2007 to FY 2016**

#### **IV. COMPLIANCE SECTION**

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Commissioners and Officers of  
Spartanburg Water System

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Spartanburg Water System, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Spartanburg Water System's basic financial statements, and have issued our report thereon dated December 2, 2016.

### Internal Control over Financial Reporting

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

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

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

### Compliance and Other Matters

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

### Purpose of this Report

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

*McAbee, Schwartz, Halliday & Co.*

Spartanburg, South Carolina  
December 2, 2016

(64)