

**SPARTANBURG SANITARY  
SEWER DISTRICT**



**SPARTANBURG, SOUTH CAROLINA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

## **I. INTRODUCTORY SECTION**

SPARTANBURG SANITARY SEWER DISTRICT  
SPARTANBURG, SOUTH CAROLINA

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

SUBMITTED BY:  
FINANCE DEPARTMENT

SPARTANBURG SANITARY SEWER DISTRICT  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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# **Spartanburg Sanitary Sewer District Officials**

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

### **Commissioners**

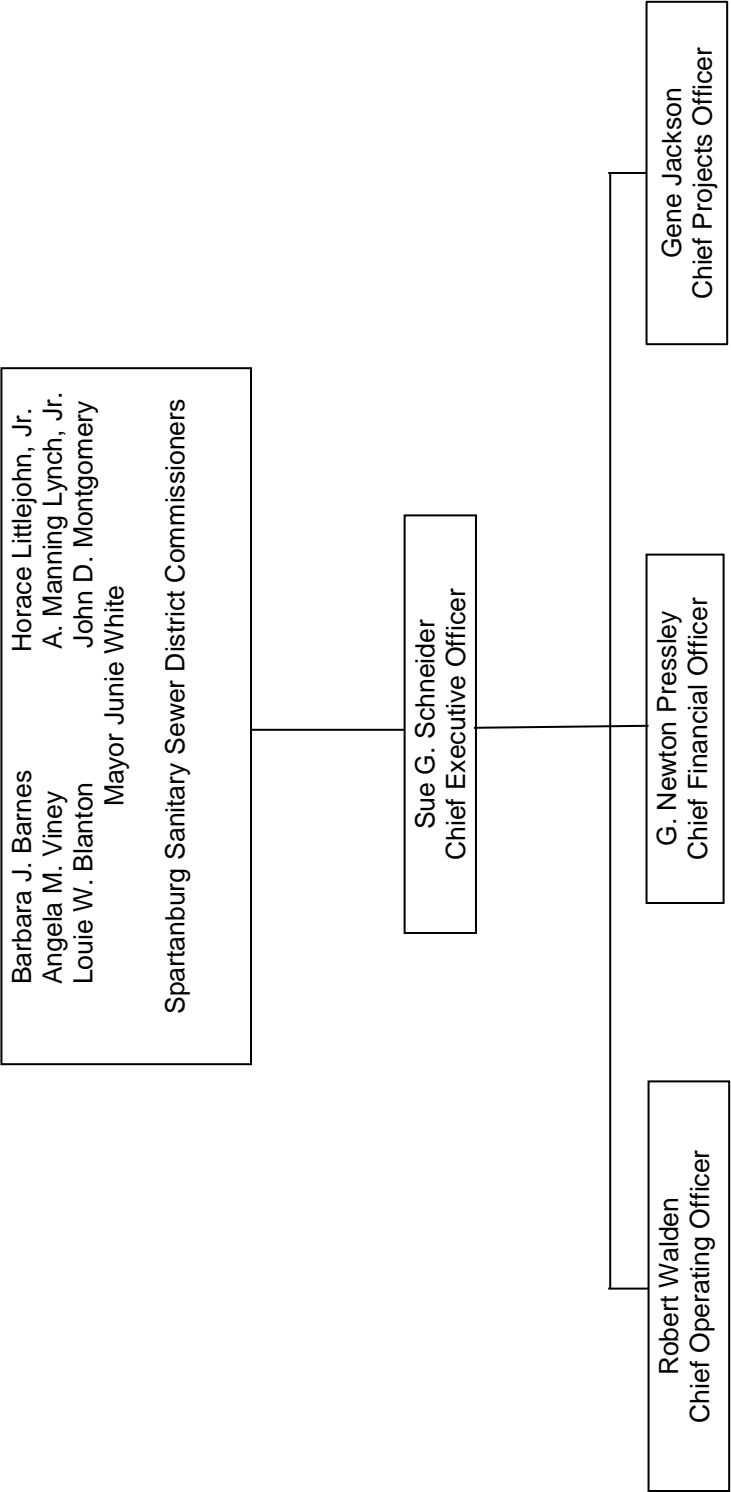
A. Manning Lynch, Jr. ....	Chairman
Barbara J. Barnes .....	Commissioner
Louie W. Blanton.....	Commissioner
Horace C. Littlejohn, Jr.....	Commissioner
John D. Montgomery. ....	Commissioner
Angela M. Viney.....	Commissioner
Mayor Junie White.....	Commissioner

### **Senior Management Staff**

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

# Spartanburg Sanitary Sewer District

## Organizational Chart





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Letter of Transmittal  
December 4, 2018

To the Commissioners and Customers  
of the Spartanburg Sanitary Sewer District

We are pleased to submit to you the Comprehensive Annual Financial Report ("CAFR") for the Spartanburg Sanitary Sewer District ("the District") for the fiscal year ended June 30, 2018. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

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

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

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

## PROFILE OF THE DISTRICT

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

The District is located in Spartanburg County, which is located in the northwest Piedmont section of South Carolina on the I-85 corridor between Atlanta, Georgia and Charlotte, North Carolina. The current boundaries of the District encompass 137,867 acres (215 square miles) and include the municipalities of Spartanburg, Cowpens, Landrum, Pacolet, and Central Pacolet, and portions of three other special purpose districts, which include the Inman-Campobello Water District, the Liberty-Chesnee-Fingerville Water District and the Startex-Jackson-Wellford-Duncan Water District.

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

The District presently operates eight regional treatment facilities: Clifton-Converse, Cowpens, Fairforest, Lower North Tyger River, Pacolet Area, Fingerville, Page Creek (Landrum) and South Tyger River. In addition, the District operates one large pump station at Lawson Fork and 77 pump stations throughout the service area, and 1,022 miles of pipeline, of which 371 miles was acquired from the City of Spartanburg as of January 1, 2008.

## **LOCAL ECONOMY**

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

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

Spartanburg County's unemployment rate in June 2018 was 3.4%, as compared with the state rate of 3.8% and the national rate of 4.0%.

## **FINANCIAL MANAGEMENT**

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

The Red Flags Rule is federal legislation that requires government agencies, including utilities, to develop written, board-approved programs designed to detect, prevent, and mitigate identity theft. A written Red Flags Identity Theft Prevention Program was approved by the Commissioners on April 28, 2009; the program details the procedures implemented to verify the identity of applicants opening new accounts and to protect sensitive customer information such as social security numbers, bank account information, and credit card numbers. The Red Flags Rule program is monitored on an ongoing basis to ensure compliance with procedures and to provide training. The annual Red Flags Program report was provided at the June 26, 2018 Commission meeting. Management concluded that the program is effective, the policies and procedures have been followed, and that the internal controls and electronic security measures are protecting sensitive customer data.



The District's cash management policy provides that available funds are invested overnight and longer-term in accordance with state law, which permits the following types of investments: obligations of the U.S. and its agencies, general obligations of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit collaterally secured, repurchase agreements secured by the foregoing obligations, and the State Treasurer's Investment Pool. For more information regarding the June 30, 2018 investment distribution, see Note 2 to the Financial Statements.

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

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

## **FINANCIAL CONDITION**

The decrease in net position for fiscal year 2018 was \$242,644, a .49% decrease for the fiscal year, which was a result of an increase in net position of \$3,447,339 offset by the restatement and reduction of beginning net position of \$3,689,983 for the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The customer base increased by 2,110 accounts, or 5.0%, for fiscal year 2018. The average annual growth rate over the past five years was 2.4%. Debt service coverage of 110% is required by the District's revenue bond covenant. The fiscal year 2018 debt service coverage ratio based on the revenue bond covenant was 154%. A recent rate survey of comparable utilities in the region indicated that the District's customer rates compared favorably with the majority of the agencies in the survey.

Various funds are maintained to meet the operational, maintenance, and capital improvement needs of the system. The Depreciation Fund provides for the renovation and replacement of operational equipment and system facilities, and has been adequately funded in recent years with a June 30, 2018 balance of \$3,818,522. The Collection System Rehab Fund provides for the evaluation, maintenance and replacement of the collection system; the year-end balance is \$2,254,839. The Rate Stabilization Fund, which was established to provide for the smoother transition of future rate increases, has a balance of \$3,445,416 at June 30, 2018.

## **AWARDS**

Spartanburg Water (Spartanburg Sanitary Sewer District and Spartanburg Water System) 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).

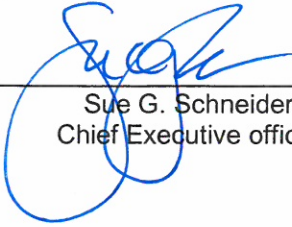
The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to Spartanburg Sanitary Sewer District for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the fifteenth year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

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

## ACKNOWLEDGEMENTS

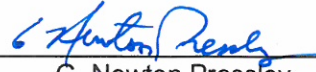
We appreciate the support of the Commissioners and the dedication of all our District employees.

Respectfully Submitted,



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Sue G. Schneider  
Chief Executive officer



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G. Newton Pressley  
Chief Financial Officer



Government Finance Officers Association

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

Presented to

**Spartanburg Sanitary Sewer District  
South Carolina**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2017**

*Christopher P. Morill*

Executive Director/CEO

## **II. FINANCIAL SECTION**

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

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities of Spartanburg Sanitary Sewer District as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Spartanburg Sanitary Sewer District as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis-of-Matter**

As discussed in Note 14 to the financial statements, in the year ended June 30, 2018, the Spartanburg Sanitary Sewer District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the total OPEB liability and related ratios, schedule of contributions, schedule of funding progress and employer contributions for retiree health plan, and schedules of the District'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 the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Spartanburg Sanitary Sewer District's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*McAbee, Schwartz, Halliday & Co.*

Spartanburg, South Carolina  
December 4, 2018

## **Spartanburg Sanitary Sewer District Management's Discussion and Analysis**

This Management Discussion and Analysis ("MD&A") serves as an introduction to the basic financial statements and provides a narrative overview and analysis of the District's financial condition and performance for the fiscal year ended June 30, 2018. This information should be read in conjunction with the transmittal letter and the District's financial statements, as listed in the table of contents included in this report.

### **Financial Highlights**

As of June 30, 2018, total assets of \$223,706,210 and deferred outflows of resources of \$8,624,959 exceed total liabilities of \$182,968,983 and deferred inflows of resources of \$207,073 by \$49,155,113. For fiscal year 2017, total assets of \$223,971,409 and deferred outflows of resources of \$8,646,151 exceeded total liabilities of \$183,219,803 by \$49,397,757.

For the fiscal year ended June 30, 2018, increase in net position, before capital contributions, was \$1,442,496. The District's increase in net position, after capital contributions of \$2,004,843, was \$3,447,339. For fiscal year 2017, increase in net position, before capital contributions, was \$1,191,396 and increase in net position, after capital contributions of \$3,678,468, was \$4,869,864.

For fiscal year 2018, operating revenues decreased by \$211,355 to \$26,118,922, or 0.8%, non-operating revenues increased by \$612,256 to \$7,429,121, or 9.0%, and total expenses increased by \$149,801 to \$32,105,547 or 0.5%. For fiscal year 2017, operating revenues increased by \$2,126,256 to \$26,330,277, or 8.8%. For fiscal year 2017, non-operating revenues increased by \$1,167,545 to \$6,816,865 or 20.7%, and total expenses increased by \$1,100,951 to \$31,955,746, or 3.6%.

Debt service coverage of 110% is required by the District's revenue bond covenant. The fiscal year 2018 debt service coverage ratio based on the revenue bond covenant was 154%. The fiscal year 2017 total District debt service coverage ratio was 154%.

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

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

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

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

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

## Financial Analysis of the District

The Condensed Statements of Net Position are provided below as a summary of Assets, Deferred outflows of resources, Liabilities, Deferred inflows of resources, and Net position for the years ended June 30, 2018, 2017 and 2016.

### Financial Analysis of the District Condensed Statements of Net Position

	2018	2017 Restated	2016
<b>Assets</b>			
Current and noncurrent assets	\$ 46,352,816	\$ 51,085,479	\$ 33,577,264
Capital assets	177,353,394	172,885,930	174,105,590
<b>Total Assets</b>	<b>\$ 223,706,210</b>	<b>\$ 223,971,409</b>	<b>\$ 207,682,854</b>
<b>Deferred outflows of resources</b>			
Deferred loss on refundings	\$ 7,090,095	\$ 7,647,318	\$ 8,204,542
Deferred outflows from pension	1,095,186	998,833	895,407
Deferred amounts related to OPEB	439,678	-	-
<b>Total Deferred Outflows of Resources</b>	<b>\$ 8,624,959</b>	<b>\$ 8,646,151</b>	<b>\$ 9,099,949</b>
<b>Liabilities</b>			
Current liabilities	\$ 11,693,035	\$ 10,084,318	\$ 9,329,504
Noncurrent liabilities	171,275,948	173,135,485	162,459,090
<b>Total Liabilities</b>	<b>\$ 182,968,983</b>	<b>\$ 183,219,803</b>	<b>\$ 171,788,594</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows from pensions	\$ 134,852	\$ -	\$ 466,316
Deferred amounts related to OPEB	72,221	-	-
<b>Total Deferred Inflows of Resources</b>	<b>\$ 207,073</b>	<b>\$ -</b>	<b>\$ 466,316</b>
<b>Net position</b>			
Net investment in capital assets	\$ 40,568,904	\$ 41,632,938	\$ 40,584,822
Unrestricted	8,586,209	7,764,819	3,943,071
<b>Total Net Position</b>	<b>\$ 49,155,113</b>	<b>\$ 49,397,757</b>	<b>\$ 44,527,893</b>

Current and noncurrent assets decreased by \$4,732,663 to \$46,352,816 and increased \$17,508,215 to \$51,085,479 in fiscal year 2018 and 2017, respectively, primarily due to the issuance of the 2016 GO Bond in 2017 and use of funds for capital projects in 2018. Additionally, capital assets increased by \$4,467,464 to \$177,353,394 in fiscal year 2018 and decreased by \$1,219,660 to \$172,885,930 in fiscal year 2017. See Capital assets section on page 9 for further explanation.

For the current fiscal year the District's long-term debt, including current maturities, increased by \$5,888,550 to \$164,748,985 or 3.5% and increased by \$10,045,994 or 6.3% for the prior fiscal year.

Current and noncurrent assets included cash and investments of \$39,754,923 and \$43,682,769 as of June 30, 2018 and 2017, respectively. The distribution by fund of the year-end balances is provided below:



<b>Fund</b>	<b>2018</b>	<b>2017</b>
Operating	\$ 2,373,714	\$ 4,227,643
Debt service trust account	3,455,165	3,386,202
Debt service reserve account	4,206,144	4,189,105
Rate stabilization	3,445,416	2,508,207
Depreciation	3,818,522	3,438,784
Capacity fees	84,150	84,150
Collection system rehab	2,524,839	2,254,366
Capital project funds		
Capital	10,473,251	6,421,191
Bond funds	9,373,722	17,173,121
<b>Total cash and investments</b>	<b>\$ 39,754,923</b>	<b>\$ 43,682,769</b>

Also included in current and noncurrent assets for fiscal year 2018 are receivables of \$5,589,365, with the substantial portion associated with user charge receivables, as follows: billed, not collected, net of allowance for doubtful accounts \$1,426,256, amount collected by Spartanburg Water System and transferred to the District after year-end \$2,274,242 and revenue earned but not yet billed \$1,825,586. For fiscal year 2017, the receivables of \$6,548,231, with the substantial portion associated with user charge receivables, as follows: billed, not collected, net of allowance for doubtful accounts \$1,329,515, amount collected by Spartanburg Water System and transferred to the District after year-end \$2,429,298 and revenue earned but not yet billed \$2,708,218.

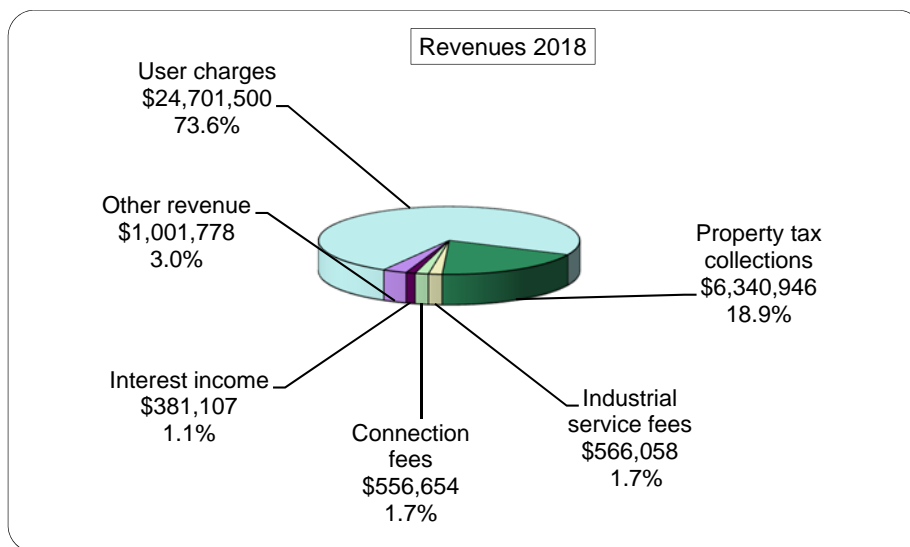
Current liabilities as of June 30, 2018, included accounts payable from operating funds of \$469,210, and accounts payable from capital funds of \$2,227,183, retainage payable of \$594,514 and the intercompany payable to the Spartanburg Water System of \$895,852 that is included in other payables. June 30, 2017 current liabilities included accounts payable from operating funds of \$413,725, and accounts payable from capital funds of \$946,827, retainage payable of \$378,116 and the inter-company payable to the Spartanburg Water System of \$994,827 that is included in other payables.

The Condensed Statements of Revenues, Expenses and Changes in Net Position are provided on the following page as a summary for the fiscal years ended June 30, 2018, 2017, and 2016.

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

	2018	Restated 2017	2016
Revenues			
Operating revenues			
User charge revenues	\$ 24,701,500	\$ 25,081,281	\$ 22,919,183
Other operating revenues	1,417,422	1,248,996	1,284,838
	<u>26,118,922</u>	<u>26,330,277</u>	<u>24,204,021</u>
Nonoperating revenues			
Property tax collections	6,340,946	6,038,111	5,024,690
Other nonoperating revenue	1,088,175	778,754	624,630
	<u>7,429,121</u>	<u>6,816,865</u>	<u>5,649,320</u>
Total revenues	<u>33,548,043</u>	<u>33,147,142</u>	<u>29,853,341</u>
Expenses			
Operating expenses, before depreciation	14,501,674	14,523,095	14,147,144
Depreciation expense	10,887,736	10,371,935	10,095,657
Non-operating expenses	6,716,137	7,060,716	6,611,994
Total expenses	<u>32,105,547</u>	<u>31,955,746</u>	<u>30,854,795</u>
Change in net position before capital contributions	1,442,496	1,191,396	(1,001,454)
Capital contributions	<u>2,004,843</u>	<u>3,678,468</u>	<u>3,334,211</u>
Change in net position	3,447,339	4,869,864	2,332,757
Net position, beginning of year, restated (2018)	<u>45,707,774</u>	<u>44,527,893</u>	<u>42,195,136</u>
Net position, end of year	<u>\$ 49,155,113</u>	<u>\$ 49,397,757</u>	<u>\$ 44,527,893</u>

Revenues (excluding capital contributions) of \$33,548,043 for the fiscal year ended June 30, 2018, were comprised of the following:



User charge revenue decreased from fiscal year 2017 to fiscal year 2018 by \$379,781, or 1.5%, primarily due to a decrease in usage. The increase from fiscal year 2016 to fiscal year 2017 was \$2,162,098, or 9.4%, primarily due to an increase in usage and base charges.

Pursuant to Act No. 1503 of 1970, the District has the authority to levy taxes uniformly throughout the District. The tax revenue may be used to pay debt service on eligible General Obligation ("G.O.") debt, to pay administrative expenses for the District, and to provide for the cost of maintenance and operation of certain interceptors and the sewage treatment facilities. Property tax revenue was \$6,340,946 and increased by \$302,835, or 5.0% due to the increase in vehicle and fee in lieu taxes and a full year of the bond millage for the 2016 GO Bond. Property tax revenue during fiscal year 2018 consisted of: real property of \$4,816,376, vehicles of \$610,044, delinquent taxes of \$181,261, homestead reimbursement of \$243,701, and other sources of \$489,564. Property tax revenue for fiscal year 2017 was \$6,038,111 and consisted of: real property of \$4,919,320, vehicles of \$567,096, delinquent taxes of \$203,132, homestead reimbursement of \$234,595 and other sources of \$113,968 which was an increase of \$1,013,421, or 20.2%, which was also attributed to an increase in vehicle tax collections, delinquent taxes and the addition of bond millage for the 2016 GO Bond.

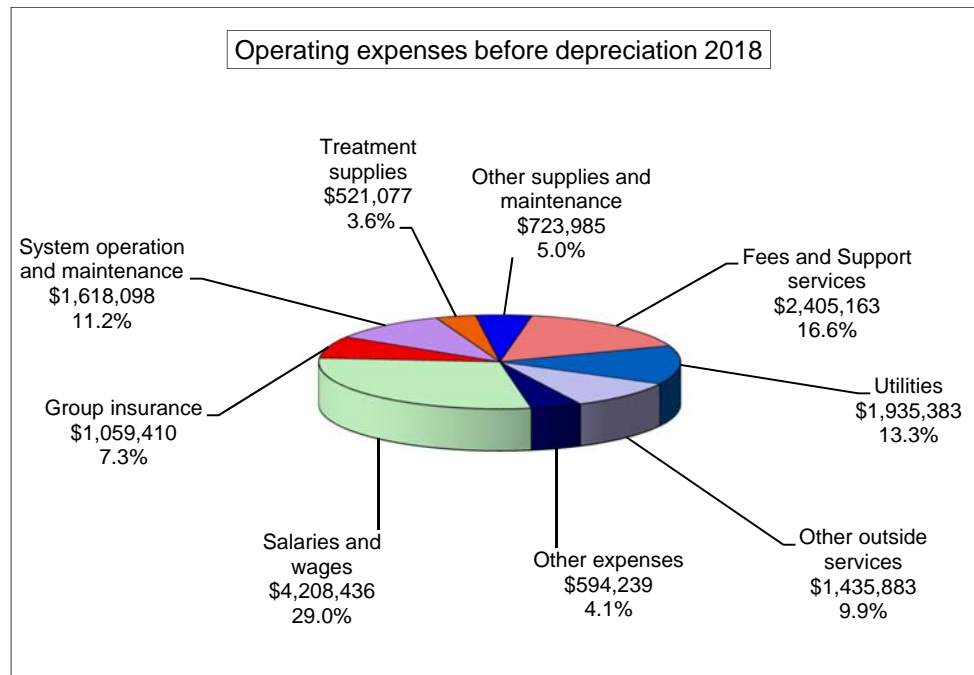
For calendar year 2018 the operating millage was 7.8 and bond millage was 1.1; in comparison to calendar year 2017, the operating millage was 7.5 and bond millage was 1.4.

Interest income increased \$174,932, or 84.8%, to \$381,107 for fiscal year 2018, due to the increased investment in capital and rate stabilization accounts, following an increase of \$145,197, or 238% in fiscal year 2017, due to the increased investment in capital and rate stabilization accounts.

Industrial service fees of \$566,058 included industrial service charges of \$324,853 and industrial surcharge revenues of \$241,205 for fiscal year 2018 compared to a total of \$492,704 for fiscal year 2017.

Other revenue includes intercompany reimbursements, county maintenance fees, service processing/inspection fees, miscellaneous cost recoveries, and sewer collection fees.

Operating expenses before depreciation were comprised of the following:



The following tables provide a comparison of fiscal year 2018 and 2017 and fiscal year 2017 and 2016 operating expenses for major expense categories.

#### Comparison of operating expenses before depreciation

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

### Comparison of operating expenses before depreciation

Expense Category	Increase/(Decrease) From 2016 to 2017			
	2017	2016	Amount	% of Change
Salaries and wages	\$ 4,192,755	\$ 4,025,873	\$ 166,882	4.1%
Group insurance	1,173,516	930,869	242,647	26.1%
System operation and maintenance	1,559,311	1,610,431	(51,120)	-3.2%
Treatment supplies	710,051	734,431	(24,380)	-3.3%
Other supplies and maintenance	802,868	654,719	148,149	22.6%
Fees and support services	2,253,368	2,326,872	(73,504)	-3.2%
Utilities	1,909,984	2,062,114	(152,130)	-7.4%
Other outside services	1,397,458	1,390,347	7,111	0.5%
Other expenses	523,784	411,488	112,296	27.3%
Total operating expenses before depreciation	<u>\$ 14,523,095</u>	<u>\$ 14,147,144</u>	<u>\$ 375,951</u>	<u>2.7%</u>

Operating expenses, before depreciation, decreased by \$21,421, or 0.1% from fiscal year 2017 to fiscal year 2018, primarily due to a decrease in treatment supplies and group insurance, offset by an increase in fees and support services and other expenses. The increase from fiscal year 2016 to fiscal year 2017 was \$375,951, or 2.7%, primarily due to an increase in salaries and wages and group insurance. Highlights of the fiscal years 2018-2017 expense comparison is provided below:

- The Salaries and wages increase resulted primarily from an increase in retirement contributions.
- The Group insurance decrease resulted from a reduction in claims for fiscal year 2018.
- The Treatment supplies decrease was primarily associated with reduced chemical costs for Solids Management and Fairforest Reclaimed Water Treatment Plant.
- The Fees and support services line item includes intercompany fees and charges paid to Spartanburg Water System. This line item reflects the District's allocated share of the following costs: Administrative (including Administration, Human Resources, Accounting, Purchasing and Information Technology); Billing, Customer Service and Meter Reading/Field Services; Engineering; Water Quality supervisory group; Maintenance supervisory group; Reclaimed Water Treatment supervisory group. The fiscal year 2018 increase is primarily due to the following intercompany fees and charges: Billing, due to transition to monthly billing and increased staff for Customer Service and Field Services.
- The other line items reflected no significant change in the comparison of fiscal year 2018 to fiscal year 2017.

Non-operating expenses totaled \$6,716,137 for the year and consisted of interest expense and paying agent fees. Total interest expense and paying agent fees decreased by \$126,408.

### Capital Contributions

The District receives contributions from developers in the form of cash payments and donated lines; and occasionally, contributions from federal/state agencies in the form of grants for capital projects. Accounting principles generally accepted by the United States of America require that these contributions be reflected as a revenue source on the Statements of Revenues, Expenses and Changes in Net Position. Capital contributions for fiscal year 2018 totaled \$2,004,843, a decrease of \$1,673,625 or 45.5%, and were comprised of donated lines \$2,004,843. The most significant capital contributions during fiscal year 2018 are as follows: TRIP North Ph 2.1, Quik Trip, Peachtree Park, Myers Park and District 7 Elementary School.

Capital contributions for fiscal year 2017 totaled \$3,678,468, an increase of \$344,257, or 10.32%, and were comprised of donated lines \$3,372,549 and cash payments \$305,919. The most significant capital contributions during fiscal year 2017 were as follows: TRIP North Ph1.1, Rainwater Subdivision, Ridgeville Crossing and Ivywood Subdivision.

## Capital Assets

At June 30, 2018, the District had \$177,353,394 invested in capital assets, as provided in the schedule below:

<b>Capital Assets at Year-End</b>			
	2018	Restated 2017	2016
Treatment plants, interceptor lines, and collection lines	\$ 298,330,217	\$ 293,837,853	\$ 282,981,397
Other facilities and property	1,845,999	1,845,999	1,845,999
Vehicles, office and maintenance equipment	16,570,036	14,887,529	14,548,988
Construction in progress	13,881,578	4,871,925	7,437,944
Subtotal	330,627,830	315,443,306	306,814,328
Accumulated depreciation	(153,274,436)	(142,557,376)	(132,708,738)
<b>Capital assets - net of depreciation</b>	<b>\$ 177,353,394</b>	<b>\$ 172,885,930</b>	<b>\$ 174,105,590</b>

The fiscal year 2018 overall increase in capital assets was a result of an increase in Treatment plants, interceptor lines, and collection lines, increase in construction in progress and an increase in current year depreciation. The Treatment plants, interceptor lines, and collection lines increase was primarily due to current and prior year construction projects completed with an offsetting decrease in donated sewer lines. The net increase for construction in progress resulted primarily from the following: LNTR WWTP Expansion & Upgrade, Greenville Branch Creek Sewer Interceptor Rehab, LNTR Basin Sewer Rehab Phase III and Pacolet Mills Liner Replacement.

The fiscal year 2017 overall decrease in capital assets was a result of the increase in Treatment plants, interceptor lines, and collection lines, decrease in construction in progress and increase in current year depreciation. The Treatment plants, interceptor lines, and collection lines increase was primarily due to current and prior year construction projects completed and the \$3,372,549 addition of donated sewer lines. The net decrease for construction in progress resulted primarily from the following closed projects: Biosolids Master Plan Phase I, Toray Industries Sewer Line Extension and the LNT Basin Sewer Rehab.

For more information on changes in capital assets, see Note 3 to the financial statements.

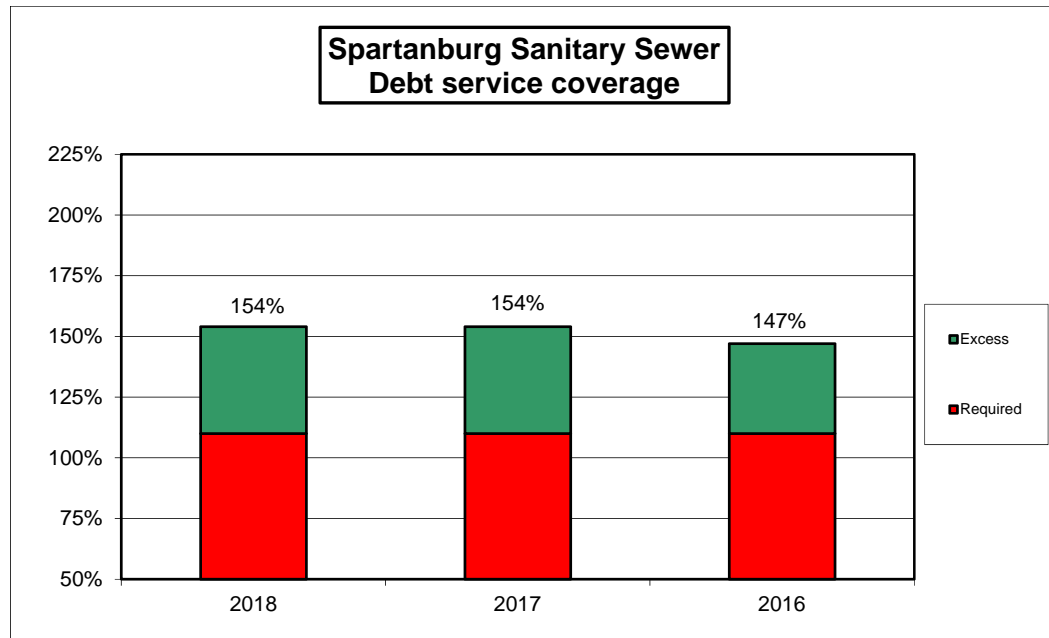
## Debt Administration

### Debt Service Coverage

In the District's revenue bond resolution, the District covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the system which, together with other income, are reasonably expected to yield annual net earnings in the current fiscal year equal to at least 110% of the annual principal and interest requirements for all revenue bonds outstanding in such fiscal year, plus 100% of debt service on any general obligation bonds not paid from ad valorem tax receipts. The computation of net earnings is presented by the detailed schedule of Debt Service Coverage, which is provided in the statistical section of this report. The District's historical debt service coverage is summarized by the table below:

### Debt Service Coverage

	2018	2017	2016
Net earnings per Revenue bond covenant	\$ 15,644,508	\$ 15,619,578	\$ 14,197,607
Debt service requiring coverage, per covenant			
Revenue bond debt service	9,043,103	9,090,061	9,092,681
G.O. Debt service paid with revenues	-	-	-
Debt service amount for coverage test	\$ 9,043,103	\$ 9,090,061	\$ 9,092,681
Debt service coverage ratio based on revenue covenant	1.73	1.72	1.56
Net earnings per revenue bond covenant	15,644,509	15,619,578	14,197,607
Plus: Ad valorem taxes used for G.O. debt service	3,219,960	2,967,750	1,854,135
Adjusted net earnings	\$ 18,864,469	\$ 18,587,328	\$ 16,051,742
Total District debt service	\$ 12,263,063	\$ 12,057,811	\$ 10,946,816
Total District debt coverage ratio	1.54	1.54	1.47



**Outstanding Debt at Year-End**

The District had \$157,198,845 in debt outstanding at year-end, as scheduled below:

	Average Yield	Outstanding Debt		
		2018	2017	2016
Long-term Debt				
Bond Anticipation Note				
2016 BAN		\$ -	\$ -	\$ 250,000
General Obligation Bonds				
2010 General Obligation Refunding Bonds	3.75%	12,020,000	12,020,000	12,020,000
2011 General Obligation Refunding Bonds	2.89%	5,730,000	6,425,000	7,100,000
2013 General Obligation Bonds	2.50%	3,455,000	3,455,000	3,455,000
2014 General Obligation Refunding Bonds	2.20%	6,052,000	6,737,000	7,407,000
2016 General Obligation Bonds	2.52%	14,770,000	15,075,000	-
		42,027,000	43,712,000	29,982,000
Revenue Bonds				
2009A Sewer Revenue Refunding Bonds	3.97%	3,585,000	4,685,000	5,565,000
2009B Sewer Revenue Refunding Bonds	3.97%	13,860,000	15,070,000	16,230,000
2011 Sewer Taxable Revenue Bond	3.49%	1,445,000	2,385,000	3,305,000
2013A Sewer Revenue Refunding Bonds	3.55%	8,380,000	8,380,000	8,595,000
2013B Sewer Revenue Refunding Bonds	3.55%	50,125,000	50,125,000	50,125,000
2014A Revenue Refunding Bonds	3.86%	4,320,000	4,440,000	4,555,000
2014B Convertible Refunding Bonds	3.86%	33,330,000	33,685,000	34,030,000
		115,045,000	118,770,000	122,405,000
Loans				
State Revolving Fund Loan	3.50%	126,845	181,197	234,343
Total Debt Outstanding		\$ 157,198,845	\$ 162,663,197	\$ 152,871,343

For more information on changes in long-term debt, see Note 4 to the financial statements.

**G.O. Debt Limit**

The District may issue G.O. debt up to an amount equal to 8% of the last certified District assessment, without the requirement of conducting a referendum. Current G.O. debt capacity is determined as follows:

Final 2017 Assessed Value, less	
mfg. depreciation reduction	\$ 674,118,672
G.O. debt ceiling percentage	8%
Current G.O. debt ceiling	<u>53,929,494</u>
Less: outstanding G.O. debt	<u>42,027,000</u>
Available G.O. debt capacity	<u>\$ 11,902,494</u>

## **Bond Ratings**

The District maintained the following ratings during fiscal year 2018:

<b>Agency</b>	<b>Revenue</b>	<b>G.O.</b>
Standard & Poor's	AA-	AA
Moody's	A1	Aa3

## **Financial Planning**

Although the District does not have a legally adopted budget, an annual operating budget is adopted for management and financial planning purposes. The District conducts an update of the financial planning process as follows: departmental staffing plans, detailed budget requests, and depreciation schedules are prepared; District-wide budget information, including revenues, flow estimates, debt service, cost allocations, etc., are completed; capital improvement plans, and applicable debt service projections are utilized for long-term financial planning; the computerized financial planning and rate-setting model is updated to provide for a five-year financial projection; the annual operating budget is presented to the Commission; and a public hearing is advertised and held prior to final approval of the budget, tax levy, and user charges.

The District Commission approved an Annual operating budget for fiscal year 2019 in the total amount of \$32,846,923, which represents a 2.3% increase over the previous year's budgeted revenues and expenditures. The fiscal year 2019 budget included funding of reserves as follows: Depreciation fund - \$1,900,000; Capital - \$1,100,000; and the Collection system rehab fund - \$1,200,000.

## **Other Significant Matters**

- **Collection System Rehab Program**  
The District has continued rehab program efforts associated with the Collection System infrastructure. These project activities include sewer line rehab work, creek crossings, manhole rehab work, right-of-way clearing, and large line cleaning.
- **Monthly Billing**  
Spartanburg Water System and Sanitary Sewer District introduced monthly billing in February 2018. Most customers were previously billed on a bimonthly basis. Monthly billing provides various benefits to customers: more efficient household budgeting, timely water usage information, and earlier detection of water leaks. Monthly billing represents the more typical billing method utilized in the water/sewer industry.

## **Requests for Information**

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

Chief Financial Officer  
Spartanburg Sanitary Sewer District  
P.O. Box 251  
Spartanburg, SC 29304  
(864) 583-7361



SPARTANBURG SANITARY SEWER DISTRICT  
STATEMENTS OF NET POSITION  
JUNE 30, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2018	Restated 2017
Assets		
Current assets		
Cash	\$ 2,728,628	\$ 13,554,436
Investments	20,237,907	5,300,258
User charge receivable - net of allowance for doubtful accounts of \$137,324 and \$123,939 for 2018 and 2017, respectively	3,251,842	4,037,733
Taxes receivable - net of allowance for doubtful accounts of \$451,460 and \$377,840 for 2018 and 2017, respectively	54,210	72,129
Assessments and improvement charges receivable	9,071	9,071
Other receivables	2,274,242	2,429,298
Inventories	1,008,528	821,607
Total current assets	29,564,428	26,224,532
Noncurrent assets		
Restricted cash	343,348	327,596
Restricted investments	16,445,040	24,500,479
Net other post-employment benefits asset	-	32,872
Capital assets - nondepreciable	13,881,578	4,871,925
Capital assets - net of accumulated depreciation	163,471,816	168,014,005
Total noncurrent assets	194,141,782	197,746,877
Total Assets	223,706,210	223,971,409
Deferred Outflows of Resources		
Deferred loss on refundings	7,090,095	7,647,318
Deferred amounts related to pensions	1,095,186	998,833
Deferred amounts related to OPEB	439,678	-
Total Deferred Outflows of Resources	8,624,959	8,646,151

SPARTANBURG SANITARY SEWER DISTRICT  
STATEMENTS OF NET POSITION - CONTINUED  
JUNE 30, 2018 AND 2017

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2018	Restated 2017
Liabilities		
Current liabilities		
Accounts payable	3,284,182	1,732,296
Accrued salaries and wages	387,701	387,483
Accrued employee benefits	83,618	117,435
Accrued interest expense	2,066,096	2,072,925
Other payables	895,852	994,827
Long-term debt - current portion	4,975,586	4,779,352
Total current liabilities	11,693,035	10,084,318
Noncurrent liabilities		
Net pension liability	7,531,484	7,277,302
Net other post-employment benefit liability	3,971,065	-
Long-term debt - net of current portion	159,773,399	165,858,183
Total noncurrent liabilities	171,275,948	173,135,485
Total Liabilities	182,968,983	183,219,803
Deferred Inflows of Resources		
Deferred amounts related to pensions	134,852	-
Deferred amounts related to OPEB	72,221	-
Total Deferred Inflows of Resources	207,073	-
Net Position		
Net investment in capital assets	40,568,904	41,632,938
Unrestricted	8,586,209	7,764,819
Total Net Position	\$ 49,155,113	\$ 49,397,757

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

SPARTANBURG SANITARY SEWER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	Restated 2017
Operating Revenues		
User charge revenues	\$ 24,701,500	\$ 25,081,281
Industrial service fees	566,058	492,704
Treatment charges	275,210	145,320
Miscellaneous	576,154	610,972
	<u>26,118,922</u>	<u>26,330,277</u>
Operating Expenses		
Operating expenses before depreciation	14,501,674	14,523,095
Depreciation	10,887,736	10,371,935
	<u>25,389,410</u>	<u>24,895,030</u>
Operating Income (Loss)	<u>729,512</u>	<u>1,435,247</u>
Nonoperating Revenues (Expenses)		
Connection fees	556,654	466,277
Property tax collections	6,340,946	6,038,111
Gain on sale of capital assets	150,414	106,302
Interest income	381,107	206,175
Interest expense and paying agent fees	(6,716,137)	(6,842,545)
Bond issuance costs	-	(218,171)
	<u>712,984</u>	<u>(243,851)</u>
Increase (Decrease) in Net Position, Before Capital Contributions	1,442,496	1,191,396
Capital Contributions	<u>2,004,843</u>	<u>3,678,468</u>
Increase in Net Position	3,447,339	4,869,864
Net Position - Beginning of Year - Restated (2018)	<u>45,707,774</u>	<u>44,527,893</u>
Net Position - End of Year	<u>\$ 49,155,113</u>	<u>\$ 49,397,757</u>

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

SPARTANBURG SANITARY SEWER DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	Restated 2017
Cash Flows Provided (Used) by Operating Activities		
Cash received from customers	\$ 27,077,787	\$ 26,175,406
Cash paid to suppliers for goods and services	(7,932,547)	(8,542,602)
Cash paid to or for the benefit of employees	(5,104,386)	(5,173,261)
	<u>14,040,854</u>	<u>12,459,543</u>
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Capital contributions	-	305,919
Connection fees	556,654	466,277
Property tax collections	6,340,946	6,038,111
Acquisition and construction of capital assets	(13,350,358)	(5,780,407)
Proceeds from sale of capital assets	150,414	106,983
Proceeds from general obligation bond issue	-	15,635,390
Bond issuance costs	-	(107,000)
Principal payments - general obligation bonds	(1,685,000)	(1,595,000)
Principal payments - revenue bonds	(3,725,000)	(3,635,000)
Principal payments - state revolving fund loan	(54,352)	(53,146)
Interest and paying agent fees	(6,583,111)	(6,702,742)
	<u>(18,349,807)</u>	<u>4,679,385</u>
Cash Flows Provided (Used) by Investing Activities		
Interest income	381,107	206,175
	<u>381,107</u>	<u>206,175</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,927,846)	17,345,103
Cash and Cash Equivalents - Beginning of Year	43,682,769	26,337,666
Cash and Cash Equivalents - End of Year	<u>\$ 39,754,923</u>	<u>\$ 43,682,769</u>

SPARTANBURG SANITARY SEWER DISTRICT  
STATEMENTS OF CASH FLOWS - CONTINUED  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	Restated 2017
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating income (loss)	\$ 729,512	\$ 1,435,247
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	10,887,736	10,371,935
Pension expense	703,160	617,089
OPEB expense	352,262	-
(Increase) decrease in assets		
User charge receivable	785,891	(364,243)
Taxes receivable	17,919	(14,928)
Other receivables	155,056	224,300
Inventories	(186,921)	1,297
Net other post-employment benefit asset	-	(9,538)
Deferred amounts related to pensions	(410,479)	(390,224)
Deferred amounts related to OPEB	(405,765)	-
Increase (decrease) in liabilities		
Accounts payable	1,551,886	463,581
Accrued salaries and wages	218	22,713
Accrued employee benefits	(33,817)	23,205
Accrued interest expense	(6,829)	66,679
Other current liabilities	(98,975)	12,430
Net Cash Provided by Operating Activities	<u>\$ 14,040,854</u>	<u>\$ 12,459,543</u>
Noncash Investing, Capital and Financing Activities		
Contribution of capital assets	\$ 2,004,843	\$ 3,372,549
Amortization included in interest expense	\$ 133,026	\$ 138,092
Disposal of capital assets	\$ -	\$ 681
Repayment of bond anticipation note	\$ -	\$ (250,000)
Bond premium	\$ -	\$ 673,272
Interest expense	\$ -	\$ (1,711)
Bond issuance costs	\$ -	\$ (111,171)

SPARTANBURG SANITARY SEWER DISTRICT  
STATEMENTS OF CASH FLOWS - CONTINUED  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	Restated 2017
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	\$ 2,728,628	\$ 13,554,436
Investments	20,237,907	5,300,258
	<u>22,966,535</u>	<u>18,854,694</u>
Noncurrent assets		
Restricted cash	343,348	327,596
Restricted investments	16,445,040	24,500,479
	<u>16,788,388</u>	<u>24,828,075</u>
	<u>\$ 39,754,923</u>	<u>\$ 43,682,769</u>
Cash flow classifications		
Petty cash	\$ 550	\$ 550
Cash deposits	3,071,426	13,881,482
Investments - cash equivalents	36,682,947	29,800,737
	<u>39,754,923</u>	<u>43,682,769</u>
Total cash and cash equivalents	<u>\$ 39,754,923</u>	<u>\$ 43,682,769</u>

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

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017

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

This summary of significant accounting policies of the Spartanburg Sanitary Sewer District (the District) is presented to assist in understanding the financial statements. The financial statements and notes are representations of the District's management, which are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (US GAAP) and have been consistently applied in the preparation of the financial statements.

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

**Reporting Entity**

The District provides public sewer utility services to the residents and businesses of Spartanburg, South Carolina and surrounding communities. The District is a special purpose district created in the year 1929 by the General Assembly of the State of South Carolina. The District is a primary government with no component units. The District is governed by a seven-member commission comprised of three commissioners of the Commission of Public Works of the City of Spartanburg, the Mayor of the City of Spartanburg and three commissioners elected by citizens residing within the District but outside the area of the City of Spartanburg.

**Basis of Accounting**

Under US GAAP, the District is considered to be a self-supporting enterprise, and these financial statements are presented accordingly. Enterprise funds are used to account for operations which are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The basis of accounting employed is the accrual method whereby revenues are recognized when they are earned and expenses are recognized when they are incurred. Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting financial reporting principles.

**Use of Restricted Resources**

When both restricted and unrestricted resources are available for use, it is the District's policy to use the restricted resources first, then unrestricted resources as they are needed.

**Revenues and Expenses**

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions and ancillary activities.

**Cash and Cash Equivalents**

For purposes of reporting cash flows, all investments with a maturity of three months or less at the time of purchase are considered to be cash equivalents.

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

**Investments**

Investments are stated at fair value.

**Taxes Receivable and Ad Valorem Taxes**

Taxes receivable (current and delinquent) represent property taxes that have been collected and remitted to the Spartanburg County Treasurer's office for its distribution to the District.

The District's uncollected assessed taxes that have been transferred to the Spartanburg County Delinquent Tax Collector were \$451,460 and \$377,840 at June 30, 2018 and 2017, respectively. The District has established an offsetting allowance for uncollectible taxes of the same amount.

The District's property taxes (except vehicles) are levied by the Spartanburg County Auditor each fall on the assessed value of the property located in the District's area as of the preceding January 1. The tax books are open for collection September 1, with the first penalty of 3% applied to payments made after January 15, the due date. A total penalty of 10% is charged for payments made after January 31. Uncollected property taxes attach as an enforceable lien on January 1. Uncollected property taxes as of March 15 are transferred to the Spartanburg County Delinquent Tax Collector at which time a total penalty of 15% is assessed. Spartanburg County bills and collects the District's property taxes. The District's property tax revenues are recognized when assessed.

Assessed values for real estate are established annually by the County Tax Assessor based on the assessment ratio applied to the appropriate class of property. Real and personal property taxes in the District's area were assessed at \$674,118,672 and \$650,107,199 for the calendar years 2017 and 2016, respectively.

**Inventories**

Inventories are valued at cost using the first-in, first-out method. Inventories consist of expendable supplies held for consumption.

**Capital Assets**

Capital assets are stated at cost. Donated capital assets are recorded at estimated acquisition value on the date donated. Assets are recorded as capital assets when valued at \$1,000 or more.

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:

	<u>Years</u>
System infrastructure	10 - 40
Motor equipment	5 - 10
Maintenance equipment	10
Office equipment	3 - 10
Buildings and improvements	20 - 33



SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

**Compensated Absences**

The District provides eligible employees annual leave for each full calendar month of service. When an employee separates from employment, he is compensated for any unused annual leave.

Employees also accumulate sick leave based upon months of service. Sick leave does not vest and is lost upon termination of employment and thus is not accrued. A portion of accumulated sick leave, not to exceed forty-five days, may be redeemed for cash upon retirement. This redemption liability is neither reasonably estimable in aggregate nor accrued for financial statement purposes.

**Long-Term Liabilities**

Bond premium and discounts are deferred and equally amortized over the life of the bonds.

**Deferred Outflows and Inflows of Resources**

In the Statements of Net Position, in addition to assets and liabilities, separate sections for deferred outflows and deferred inflows of resources are reported. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an expense until then. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as revenue until that time. The District's deferred outflows of resources consist of deferred loss on refundings, which is the difference in the carrying value of refunded debt and its reacquisition price, deferred and amortized over the shorter of the life of the refunded or refunding debt; and amounts related to the District's defined benefit pension and OPEB plans. The District's deferred inflows of resources are amounts related to the District's defined benefit pension and OPEB plans.

**Capital Contributions**

The District frequently has contributions to its sewer system from developers and contractors. In addition, the District receives grant monies for construction of improvements or extensions to its system at various times. The contributions are recognized in the Statements of Revenues, Expenses and Changes in Net Position when earned.

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

*Custodial credit risk - deposits* - the District 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 District. As of June 30, 2018 and 2017, the District was not exposed to custodial credit risk.

Statutes authorized the District to invest in obligations of the United States and its agencies, general obligations (not revenue obligations) of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit collaterally secured, repurchase agreements secured by the foregoing obligations, and the State Treasurer's Investment Pool (SC Pool). The SC Pool, established pursuant to Section 6-6-10 of the South Carolina Code, is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any governing body of a political subdivision of the State, may be deposited.

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 2 - CASH DEPOSITS AND INVESTMENTS - CONTINUED

The District has not adopted a formal investment policy.

Investments measured and reported at fair value are classified according to the following hierarchy:

Level 1 - Investments reflect prices quoted in active markets.

Level 2 - Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include markets that are not considered active.

Level 3 - Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as a particular investment's risk. Assets classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

The SC Pool is a 2a7-like pool, which is not registered with the Securities and Exchange Commission (SEC), but has a policy that it will operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. In accordance with governmental accounting statements, investments are carried at fair value determined annually based upon quoted market prices. The total fair value of the SC Pool is apportioned to the entities with funds invested on an equal basis for each share owned, which are acquired at a cost of \$1.00. Funds may be deposited by SC Pool participants at any time and may be withdrawn up to 24 hours' notice. Financial statements for the SC Pool may be obtained by writing the Office of State Treasurer, Local Government Investment Pool, Post Office Box 11778, Columbia, South Carolina 29211-1950.

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

The District had the following investments as of June 30, 2018 and 2017:

Investment Type	Maturity	Value		Rating	Fair Value Hierarchy
		2018	2017		
State treasurer's investment pool	<60 days	\$ 29,364,987	\$ 22,553,027	Not rated	N/A
First American Government Obligation	<60 days	7,317,960	7,247,710	Aaa-mf	N/A
		<u>\$ 36,682,947</u>	<u>\$ 29,800,737</u>		

The Spartanburg Sanitary Sewer District is required under bond indenture agreements in connection with the issuance of bonds, to segregate certain assets. The assets listed below have been segregated and are restricted in use. They are shown in their respective categories in the accompanying statements of net position.

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 2 - CASH DEPOSITS AND INVESTMENTS - CONTINUED

	2018	2017
Restricted Assets for the Acquisition and Construction of Capital Assets		
Investments	\$ 9,127,079	\$ 17,252,770
Restricted Assets for Debt Service		
Reserve and Debt Service Funds		
Cash	343,348	327,596
Investments	7,317,961	7,247,709
	7,661,309	7,575,305
	<u>\$ 16,788,388</u>	<u>\$ 24,828,075</u>

NOTE 3 - CAPITAL ASSETS

A summary of changes in capital assets follows:

	2018			
	Balance June 30, 2017	Additions	Removals/ Disposals	Balance June 30, 2018
Capital Assets				
<b>Nondepreciable</b>				
Construction in progress	\$ 4,871,925	\$ 10,968,769	\$ 1,959,116	\$ 13,881,578
<b>Depreciable</b>				
Treatment plants, interceptor and collection lines	243,933,878	2,487,520	-	246,421,398
Collection lines - donated	49,903,975	2,004,844	-	51,908,819
Motor equipment	4,245,410	1,076,799	125,494	5,196,715
Maintenance equipment	10,013,349	733,122	28,588	10,717,883
Office equipment	628,770	43,262	16,594	655,438
Office real estate	257,433	-	-	257,433
Maintenance facility	648,572	-	-	648,572
Joint lab building	939,994	-	-	939,994
<b>Total depreciable</b>	<u>310,571,381</u>	<u>6,345,547</u>	<u>170,676</u>	<u>316,746,252</u>
<b>Total Capital Assets</b>	<u>315,443,306</u>	<u>17,314,316</u>	<u>2,129,792</u>	<u>330,627,830</u>
Accumulated Depreciation				
Treatment plants, interceptor and collection lines	104,014,636	7,786,471	-	111,801,107
Collection lines - donated	25,187,109	1,880,590	-	27,067,699
Motor equipment	3,601,566	387,791	125,494	3,863,863
Maintenance equipment	8,216,107	761,849	28,588	8,949,368
Office equipment	575,153	25,590	16,594	584,149
Office real estate	173,632	6,763	-	180,395
Maintenance facility	388,841	13,083	-	401,924
Joint lab building	400,332	25,599	-	425,931
	<u>142,557,376</u>	<u>10,887,736</u>	<u>170,676</u>	<u>153,274,436</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 172,885,930</u>			<u>\$ 177,353,394</u>

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 3 - CAPITAL ASSETS - CONTINUED

	2017			
	Balance June 30, 2016	Additions	Removals/ Disposals	Balance June 30, 2017
Capital Assets				
<b>Nondepreciable</b>				
Construction in progress	\$ 7,437,944	\$ 4,483,349	\$ 7,049,368	\$ 4,871,925
<b>Depreciable</b>				
Treatment plants, interceptor and collection lines	236,449,971	7,483,907	-	243,933,878
Collection lines - donated	46,531,426	3,372,549	-	49,903,975
Motor equipment	4,608,634	-	363,224	4,245,410
Maintenance equipment	9,330,871	838,002	155,524	10,013,349
Office equipment	609,483	24,518	5,231	628,770
Office real estate	257,433	-	-	257,433
Maintenance facility	648,572	-	-	648,572
Joint lab building	939,994	-	-	939,994
<b>Total depreciable</b>	<u>299,376,384</u>	<u>11,718,976</u>	<u>523,979</u>	<u>310,571,381</u>
Total Capital Assets	<u>306,814,328</u>	<u>16,202,325</u>	<u>7,573,347</u>	<u>315,443,306</u>
Accumulated Depreciation				
Treatment plants, interceptor and collection lines	96,709,876	7,304,760	-	104,014,636
Collection lines - donated	23,296,834	1,890,275	-	25,187,109
Motor equipment	3,568,924	395,866	363,224	3,601,566
Maintenance equipment	7,655,343	714,145	153,381	8,216,107
Office equipment	560,387	21,458	6,692	575,153
Office real estate	166,930	6,702	-	173,632
Maintenance facility	375,752	13,089	-	388,841
Joint lab building	374,692	25,640	-	400,332
	<u>132,708,738</u>	<u>10,371,935</u>	<u>523,297</u>	<u>142,557,376</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 174,105,590</u>			<u>\$ 172,885,930</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$10,887,736 and \$10,371,935, respectively.

Interest costs incurred during the years ended June 30, 2018 and 2017 were \$6,784,437 and \$6,841,345, respectively. Interest capitalized for the years ended June 30, 2018 and 2017 was \$231,664 and \$149,116, respectively.

NOTE 4 - LONG-TERM DEBT

	2018				
	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Bonds Payable					
General obligation bonds	\$ 43,712,000	\$ -	\$ (1,685,000)	\$ 42,027,000	\$ 1,040,000
Revenue bonds	118,770,000	-	(3,725,000)	115,045,000	3,880,000
State revolving fund loan	181,197	-	(54,352)	126,845	55,586
Less deferred amounts:					
Bond premium	7,974,338	-	(424,198)	7,550,140	-
	<u>\$ 170,637,535</u>	<u>\$ -</u>	<u>\$ (5,888,550)</u>	<u>\$ 164,748,985</u>	<u>\$ 4,975,586</u>

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 4 - LONG-TERM DEBT - CONTINUED

	2017			Balance June 30, 2017	Due Within One Year
	Balance June 30, 2016	Additions	Reductions		
Bonds Payable					
Bond anticipation note	\$ 250,000	\$ -	\$ (250,000)	\$ -	\$ -
General obligation bonds	29,982,000	15,325,000	(1,595,000)	43,712,000	1,000,000
Revenue bonds	122,405,000	-	(3,635,000)	118,770,000	3,725,000
State revolving fund loan	234,343	-	(53,146)	181,197	54,352
Less deferred amounts:					
Bond premium	7,720,198	673,272	(419,132)	7,974,338	-
	<u>\$ 160,591,541</u>	<u>\$ 15,998,272</u>	<u>\$ (5,952,278)</u>	<u>\$ 170,637,535</u>	<u>\$ 4,779,352</u>

General Obligation Bonds

Bonds payable at June 30, 2018 and 2017 were comprised of the following issues:

	2018	2017
\$12,135,000 General Obligation Refunding Bonds, Series 2010, dated January 7, 2010. Annual maturities of \$115,000 to \$3.275 million maturing in 2025 with semi-annual interest of 2.00% to 4.00%. Bonds were issued to refund the 2001, 2002 and 2004 General Obligation Bonds.	\$ 12,020,000	\$ 12,020,000
\$9,480,000 General Obligation Refunding Bonds, Series 2011, dated April 14, 2011. Annual maturities of \$115,000 to \$920,000 maturing in 2025 with semi-annual interest of 2.00% to 4.00%. Bonds were issued to refund most of the Series 2002 General Obligation Bonds.	5,730,000	6,425,000
\$3,455,000 General Obligation Bonds, Series 2013, dated March 1, 2014. One lump sum principal payment due upon maturity in 2038 with semi-annual interest of 5.00%. Bonds were converted from the Series 2013B Refunding Revenue and Convertible Bonds.	3,455,000	3,455,000
\$8,062,000 General Obligation Refunding Bonds, Series 2014, dated July 8, 2014. Annual maturities of \$655,000 to \$816,000 maturing in 2027 with semi-annual interest of 1.10%. Bonds were issued to defray the costs of District improvements.	6,052,000	6,737,000
\$15,325,000 General Obligation Bonds, Series 2016, dated August 30, 2016. Annual maturities of \$250,000 to \$765,000 maturing in 2046 with semi-annual interest of 2.00% to 4.00%. Bonds were issued to defray the costs of District improvements and pay off the Bond Anticipation Note.	14,770,000	15,075,000
	42,027,000	43,712,000
Less: current portion	(1,040,000)	(1,000,000)
Total long-term general obligation bonds payable	<u>\$ 40,987,000</u>	<u>\$ 42,712,000</u>

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 4 - LONG-TERM DEBT - CONTINUED

General Obligation Bonds - Continued

Debt service requirements to maturity including interest on the general obligation bonds as of June 30, 2018 are as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ 1,040,000	\$ 1,342,850	\$ 2,382,850
2020	1,785,000	1,426,694	3,211,694
2021	1,850,000	1,364,429	3,214,429
2022	4,481,000	1,299,623	5,780,623
2023	5,007,000	1,131,765	6,138,765
2024-2028	13,554,000	3,255,262	16,809,262
2029-2033	2,475,000	2,314,035	4,789,035
2034-2038	6,300,000	1,955,300	8,255,300
2039-2043	3,300,000	638,250	3,938,250
2044-2046	2,235,000	135,300	2,370,300
	<u>\$ 42,027,000</u>	<u>\$ 14,863,508</u>	<u>\$ 56,890,508</u>

Revenue Bonds

Bonds payable at June 30, 2018 and 2017 were comprised of the following issues:

	2018	2017
\$7,865,000 Sewer System Refunding Revenue Bonds Series 2009A, dated December 30, 2009. Maturities from 2014 to 2021 with semi-annual interest of 2.50% to 5.0%. Bonds issued to refund the outstanding 1999 Series A Refunding Revenue Bonds.	\$ 3,585,000	\$ 4,685,000
\$21,265,000 Sewer System Refunding Convertible Bonds Series 2009B, dated December 30, 2009. Maturities from 2011 to 2022 and 2026 to 2028 with semi-annual interest of 2.50% to 5.0%. Bonds issued to refund the most of the outstanding 1999 Series B CIB and all the outstanding 1999 Series B CAB Refunding Revenue Bonds including the accreted interest.	13,860,000	15,070,000
\$10,260,000 Sewer System Taxable Revenue Bonds Series 2011, dated November 2, 2011. Maturities from 2016 to 2025 with semi-annual interest of 1.89% to 4.18%. Bonds issued to retire the outstanding Sewer System Revenue Bond Anticipation Note, Series 2010. In 2014, a portion of these bonds were partially refunded with the Sewer System Refunding Revenue Bonds, Series 2014B.	1,445,000	2,385,000
\$9,220,000 Sewer System Refunding Revenue and Convertible Bonds Series 2013A, dated April 3, 2013. Maturities from 2014 to 2040 with semi-annual interest of 1.00% to 4.00%. Bonds issued to retire the outstanding Sewer System Convertible Bonds, Series 2003A.	8,380,000	8,380,000

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 4 - LONG-TERM DEBT - CONTINUED

Revenue Bonds - Continued

	<u>2018</u>	<u>2017</u>
\$53,730,000 Sewer System Refunding Revenue and Convertible Bonds Series 2013B, dated April 3, 2013. Maturities from 2014 to 2038 with semi-annual interest of 1.00% to 5.00%. Bonds issued to retire the outstanding Sewer System Improvement and Refunding Convertible Bonds, Series 1999B and the outstanding Sewer System Convertible Bonds, Series 2003B. In 2013, converted \$3,455,000 to General Obligation Bonds.	50,125,000	50,125,000
\$4,680,000 Sewer System Refunding Revenue Bonds, Series 2014A, dated December 4, 2014. Annual maturities of \$15,000 to \$295,000 maturing in 2040 with semi-annual interest of 2.00% to 5.00%. Bonds were issued to retire the outstanding Sewer System Revenue Bonds, Series 2005A.	4,320,000	4,440,000
\$34,480,000 Sewer System Refunding Revenue Bonds, Series 2014B, dated December 4, 2014. Annual maturities of \$100,000 to \$8,685,000 maturing in 2040 with semi-annual interest of 2.00% to 5.00%. Bonds were issued to retire the outstanding Sewer System Revenue Bonds, Series 2005B.	33,330,000	33,685,000
	<u>115,045,000</u>	<u>118,770,000</u>
Less: current portion	<u>(3,880,000)</u>	<u>(3,725,000)</u>
Total long-term revenue bonds payable	<u>\$ 111,165,000</u>	<u>\$ 115,045,000</u>

State Revolving Fund Loan

\$626,900 South Carolina Water Quality Revolving Fund Authority Loan (State revolving fund loan) was assumed by the District with the transfer of the City of Spartanburg's sewer lines. The balance as of June 30, 2018 and 2017 was \$126,845 and \$181,197, respectively. The loan matures September 2020, with principal and interest payments quarterly of \$14,493 with an interest rate of 2.25%. In a separate agreement, the state revolving fund loan was given first lien bond status and deemed fully secured by the gross revenues of the District, same as the revenue bonds.

Debt service requirements to maturity including interest on the revenue bonds and the state revolving fund loan as of June 30, 2018 are as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ 3,935,586	\$ 5,113,803	\$ 9,049,389
2020	3,541,847	4,978,322	8,520,169
2021	3,154,412	4,830,012	7,984,424
2022	805,000	4,678,131	5,483,131
2023	565,000	4,643,281	5,208,281
2024-2028	16,185,000	22,355,669	38,540,669
2029-2033	31,425,000	16,767,013	48,192,013
2034-2038	36,265,000	8,472,475	44,737,475
2039-2040	19,295,000	1,165,200	20,460,200
	<u>\$ 115,171,845</u>	<u>\$ 73,003,906</u>	<u>\$ 188,175,751</u>

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 5 - CAPITAL CONTRIBUTIONS

Donated assets and/or grants provided to finance capital expenditures are accounted for as capital contributions. During the years ended June 30, 2018 and 2017, the District received the following as donated assets or to partially finance plant extensions or additions:

	2018	2017
Donated assets	<u>\$ 2,004,843</u>	<u>\$ 3,372,549</u>

NOTE 6 - PENSION PLAN

**Plan Description** - The District, as the employer, participates in the South Carolina Retirement System (SCRS) Plan - a cost-sharing multiple-employer defined benefit pension plan, established effective July 1, 1945 pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions. The plan is administered by the South Carolina Public Employee Benefit Authority (PEBA), a division of the primary government of the state of South Carolina, and managed by PEBA's Retirement Division. PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at [www.peba.sc.gov](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223.

**Benefits Provided/Membership** - SCRS provides retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws, and PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary.

This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit.

An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years.

Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively.



SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 6 - PENSION PLAN - CONTINUED

**Benefits Provided/Membership - Continued** - 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** - Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the percentage rate in the employer and employee contribution rates on the basis of the actuarial valuation, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9% of earnable compensation. An increase in the contributions rates adopted by the Board may not provide for an increase of more than ½% in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the Board are insufficient to maintain a 30 year amortization schedule of the unfunded liability of the plan, the Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the 30 year amortization period; and this increase is not limited to ½% per year. Employees and employers (both Class II and III) are required to contribute 9.00%/8.66% and 13.41%/11.41%, respectively, of earnable compensation for the years ended June 30, 2018 and 2017, respectively. Employers also contribute an additional .15% of earnable compensation, if participating in the death benefit program.

Contributions to the Plan from the District were \$410,479 and \$390,224, for the years ended June 30, 2018 and 2017, respectively.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At June 30, 2018, the District reported a net pension liability of \$7,531,484 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability, net pension liability and sensitivity information are based on an actuarial valuation performed as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end June 30, 2017, using generally accepted actuarial procedures. The allocation of the District's proportionate shares of the collective net pension liability and pension expense were calculated on the basis of the District's contributions actually remitted to the plan relative to the total contributions that are not a representative of future contributions efforts, as of June 30, 2017. Based upon this information, the District's proportion of the collective net pension liability at June 30, 2018 and 2017 was .033456% and .034070%, respectively, a decrease of .00061% since June 30, 2016, the prior measurement date.

For the years ended June 30, 2018 and 2017, the District recognized pension expense of \$703,160 and \$617,089, respectively. At June 30, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to the pension as follows:

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 6 - PENSION PLAN - CONTINUED

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

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 33,575	\$ 134,852
Changes in assumptions	440,888	-
Net difference between projected and actual earnings on pension plan investments	210,244	-
District contributions subsequent to the measurement date	410,479	-
Total	<u>\$ 1,095,186</u>	<u>\$ 134,852</u>

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 427,725	\$ -
Net difference between projected and actual earnings on pension plan investments	180,884	-
District contributions subsequent to the measurement date	390,224	-
Total	<u>\$ 998,833</u>	<u>\$ -</u>

\$410,479 reported as deferred outflows of resources related to pensions in 2018 resulted from District contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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	
2019	\$ 145,734
2020	280,232
2021	184,223
2022	(60,334)
	<u>\$ 549,855</u>

**Actuarial Assumptions** - The June 30, 2017 total pension liability, net pension liability, and sensitivity information determined by the July 1, 2016 valuation, used the following actuarial assumptions and methods:

Actuarial cost method	Entry age normal
Inflation	2.25%
Salary increases	3.0% to 12.5% (varies by service and includes 2.25% inflation)
Benefit adjustments	lesser of 1% or \$500 annually
Investment rate of return	7.25% (includes 2.25% inflation)

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 6 - PENSION PLAN - CONTINUED

**Actuarial Assumptions - Continued** - The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of the legislation, the actuaries made an adjustment to the calculation of the rollforward total pension liability for this assumption change as of the measurement date of June 30, 2017.

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumption, the 2016 Public Retirees of South Carolina Mortality Table (2016 PRSC), was developed using published Scale AA projected from the year 2016.

Actuarial assumptions and methods used in the July 1, 2016 valuation were based on the results of an actuarial experience study, as required to be completed at least once in each five-year period by S.C. state statute. The experience report on the System was most recently issued as of July 1, 2015.

The long-term expected rate of return on pension plan investments is based upon the 30 year capital market assumptions. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees. Expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation, and is summarized in the following table. For actuarial purposes, the 7.25% assumed annual investment rate of return and a 2.25% inflation component.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	45%	3.23%
Real Assets	8%	0.41%
Opportunistic	17%	0.69%
Diversified Credit	18%	0.80%
Conservative Fixed Income	12%	0.18%
Total Expected Real Return	<u>100%</u>	<u>5.31%</u>
Inflation for Actuarial Purposes		<u>2.25%</u>
Total Expected Nominal Return		<u>7.56%</u>

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

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 6 - PENSION PLAN - CONTINUED

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*** - The following presents the District's proportionate share of the collective net pension liability calculated using the discount rate of 7.25%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the collective net pension liability	\$ 9,707,048	7,531,484	\$ 6,211,427

***Pension Plan Fiduciary Net Position*** – Detailed information regarding the fiduciary net position of the plan, administered by PEBA, is available in the Systems' audited financial statements for the fiscal year ended June 30, 2017 (including the unmodified opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2017. The additional information is publically available on PEBA's Retirement Benefits' website at [www.peba.sc.gov](http://www.peba.sc.gov).

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS

The District implemented GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* for the year ended June 30, 2018 which resulted in a restatement of net position as described in more detail in Note 14 and enhanced disclosures. However, because it was not practical, the prior year ended June 30, 2017 was not restated and reporting requirements prescribed under GASB 45 apply.

**Plan Description**

The District, through its substantive commitment to provide other post-employment benefits (OPEB), maintains an agent employer defined benefit plan to provide certain postretirement health care benefits. The plan provides health care and prescription drug coverage in the Group insurance plan; and upon becoming eligible for Medicare coverage, retirees are provided with Medicare supplement insurance which includes health care and prescription drug coverage. Participants must be eligible to retire under the SCRS with a minimum of 12 years of service to receive benefits. The District explicitly provides a portion of the cost of coverage for retirees and the retirees are required to pay a portion of the premiums which is determined each year. Retirees may continue dependent coverage (and pay the full premium for this coverage) if enrolled in dependent coverage at the time of retirement. Spouses age 65 or older may continue coverage by paying the total cost of coverage. Spouses are not covered for pre or post-65 retirees.

The District, upon majority vote of the seven member Commission, has the authority to establish and amend benefit provisions.

The Plan's assets are held in an irrevocable trust for the exclusive benefit of the Plan participants and are administered by the South Carolina Other Retirement Benefits Employer Trust (SCORBET). Each member shares in the SCORBET's administrative and investment related expenses. The SCORBET issues a publically available Comprehensive Annual Financial Report (CAFR). That report may be obtained in writing to Risk Management Services, Municipal Association of South Carolina, Post Office Box 12109, Columbia, SC 29211.

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

**Plan Membership**

Membership in the plan as of January 1, 2017, the date of the last actuarial valuation was :

Inactive plan members of beneficiaries receiving benefits	21
Active plan members	79
Total plan members	<u>100</u>

**Contributions**

The Plan is financed on a pay-as-you-go basis and through separate contributions to SCORBET based on the actuarially determined employer contribution. The SCORBET allows each member to choose a contribution amount into the trust based on the actuarially determined employer contribution. The District paid \$447,206 and \$353,679 in pay-as-you-go and SCORBET contributions for the years ended June 30, 2018 and 2017.

**Net OPEB Liability**

The District's net OPEB liability of \$3,971,065 was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation date of January 1, 2017.

*Actuarial assumptions and other inputs* - the Total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary increases	3.00%-7.00%, including wage inflation of 3.00%
Investment rate of return	4.75%, net of OPEB plan investment expense, including price inflation
Municipal bond index rate	3.55%
Single equivalent interest rate	4.75%
Health care cost rates	
Pre-medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023
Medicare	5.50% for 2016 decreasing to an ultimate rate of 5.00% by 2020
Discount rate	Based upon the long-term expected rate of return

Mortality rates were based on the RP-2014 Mortality Table for Employees with a 95% multiplier to better reflect anticipated experience and provide a margin for future improvements.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the January 1, 2017 valuation were based on the 2016 experience study adopted by the SCRS pension plan. The experience report on the SCRS was most recently issued as of July 1, 2015, and are required to be completed at least once in each five-year period by S.C. state statute. The remaining actuarial assumptions (e.g., initial per capita costs, health care costs trends, rate of plan participation, rates of plan election, etc.) used in the January 1, 2017 valuation were based on a review of recent plan experience done concurrently with the January 1, 2017 valuation.

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

**Net OPEB Liability - Continued**

*Actuarial assumptions and other inputs - continued* - Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) and developed by the investment consultant for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant may cover a shorter investment horizon and may not be useful in setting the long-term rate of return for funding OPEB plans which are likely to cover a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation adjustment, or a fundamental change in the market that alters expected returns in future years. The target asset allocation for each major asset class, as provided by the plan, are summarized in the following table:

Fixed income	94.30%
Cash and cash equivalents	5.70%
	<u>100.00%</u>

*Discount rate* - the discount rate used to measure the total OPEB liability was 4.75%. The projection of cash flows used to determine the discount rate assumed that total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annually using the payroll growth assumptions; active employees do not explicitly contribute to the plan; the District continues to contribute the full actuarially determined employer contribution through deposit to the SCORBET and direct payment of benefits to the plan members as the benefits come due; projected assets do not include employer contributions that fund estimated service costs of future employees; and cash flows occur mid-year. Based on those assumptions, the plan's fiduciary net position was projected to not be depleted.

**Changes in the Net OPEB Liability**

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c)
Balance as of December 31, 2016	\$ 5,879,321	\$ 1,906,645	\$ 3,972,676
Changes for the Year			
Service cost	210,058	-	210,058
Interest	277,159	-	277,159
Difference between expected and actual experience	(81,564)	-	(81,564)
Contributions - employer	-	369,831	(369,831)
Net investment income	-	54,351	(54,351)
Benefit payments	(89,831)	(89,831)	-
Plan administrative expenses	-	(16,918)	16,918
Net Changes	315,822	317,433	(1,611)
Balance as of December 31, 2017	<u>\$ 6,195,143</u>	<u>\$ 2,224,078</u>	<u>\$ 3,971,065</u>

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

**Changes in the Net OPEB Liability - Continued**

The total OPEB liability (TOL) is based upon the actuarial valuation performed as of the January 1, 2017 valuation date. Because this is the first year, an expected TOL as of December 31, 2016 is determined using standard roll back techniques. An expected TOL is determined as of December 31, 2017 using standard roll forward techniques.

*Sensitivity of the net OPEB liability to changes in the discount rate* - the following presents the OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate 1.0% lower or 1.0% higher than the current discount rate:

	Discount Rate Sensitivity		
	1% Decrease	Discount Rate	1% Increase
	3.75%	4.75%	5.75%
Net OPEB Liability	\$ 5,136,606	\$ 3,971,065	\$ 3,050,987

*Sensitivity of the net OPEB liability to changes in the health care cost trend rates* - the following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using health care cost trend rates that are 1.0% lower or 1.0% higher than the current health care cost trend rates:

	Health Care Cost Trend Rate Sensitivity		
	1%		1%
	Decrease	Current	Increase
Net OPEB Liability	\$ 2,893,544	\$ 3,971,065	\$ 5,392,328

*OPEB plan fiduciary net position* - detailed information about the OPEB plan's fiduciary net position is available in a separately issued SCORBET financial report prepared using the economic resources measurement focus and the accrual basis of accounting. The report may be obtained in writing to Risk Management Services, Municipal Association of South Carolina, Post Office Box 12109, Columbia, South Carolina 29211.

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$352,262. At June 30, 2018, the District reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 72,221
Net difference between projected and actual earnings on plan investments	33,913	-
District contributions subsequent to the measurement date	405,765	-
	<u>\$ 439,678</u>	<u>\$ 72,221</u>

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - Continued**

\$405,765 reported as deferred outflows of resources related to OPEB in 2018, resulted from District contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Measurement Period Ended December 31:	
2018	\$ (865)
2019	(865)
2020	(865)
2021	(864)
2022	(9,343)
Thereafter	(25,506)
	<u>\$ (38,308)</u>

The following represents the required disclosures under GASB Statement No. 45 for the year ended June 30, 2017:

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

The District's OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined. 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 22 years. The following table presents the OPEB cost for the year, the amount actually contributed and changes in the OPEB Plan for the year ended June 30, 2017:

Net OPEB Obligation (Asset)	
	2017
Annual required contribution (ARC)	\$ 343,989
Interest on net OPEB obligation	(1,167)
Adjustment to ARC	1,319
Annual OPEB cost	344,141
Contributions made	(353,679)
Increase in net OPEB obligation (asset)	(9,538)
Net OPEB obligation (asset) - beginning of year	(23,334)
Net OPEB obligation (asset) - end of year	<u>\$ (32,872)</u>

The District'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, 2017, 2016 and 2015 is as follows:

Year Ended	Annual OPEB Cost	% of OPEB Contributed	Net OPEB Obligation (Asset)
June 30, 2017	\$ 344,141	102.77%	\$ (32,872)
June 30, 2016	332,803	104.20%	(23,334)
June 30, 2015	340,485	98.93%	(9,355)



SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

*Funded Status and Funding Progress*

As of January 1, 2017, the most recent actuarial valuation date, the funded status of the plan was as follow:

Actuarial value of plan assets	2,051,623
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,827,698</u>
Funded ratio (actuarial value of assets/AAL)	34.90%
Covered payroll (annual payroll of active employees covered by the plan)	\$ 3,299,959
UAAL as a percentage of covered payroll	115.99%

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, presents 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.

*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 January 1, 2017 actuarial valuation using the following methods and assumptions:

Amortization method	level percent of pay, closed
Remaining amortization period	22
Inflation rate	2.25%
Asset valuation method	5-year smoothed market value, 80%-120% corridor
Investment return	4.75% (includes 2.25% inflation rate)
Projected salary increases	2.25%
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	2023

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 8 - DEFERRED COMPENSATION PLANS

Two deferred compensation plans are available to District employees. The multiple-employer plans, created under Internal Revenue Code Sections 401(k) and 457 are administered and accounted for by the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate employment. With approval of the State's Deferred Compensation Commission, employees may also withdraw the current value of their contributions prior to termination of employment if they meet certain requirements. These requirements differ between the two plans. The plans, available to all District employees, permit them to defer a portion of their salary until future years. Participation in the plans is optional and participants elect how their salary deferrals are invested.

Compensation deferred under the Section 401(k) and 457 plans is placed in trust for the contributing employees. Neither the State nor the District has any liability for losses under the plan.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District is insured under policies through the South Carolina Office of Insurance Services, South Carolina Reserve Fund (IRF), a public entity risk pool, which issues policies to assume those risks of loss, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses the District is exposed to, related to the following assets, activities, and/or events:

1. Real property, its contents, and other equipment.
2. Motor vehicles.
3. General tort claims.

The IRF purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. The IRF's rates are determined actuarially.

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

The District provides employee health care under a self-funded insurance program. A commercial insurance company provides aggregate stop loss coverage for claims in excess of \$3,900,561 including Spartanburg Water System and specific stop loss coverage for each claim in excess of \$95,000. The following represents the change in unfilled, unpaid claims from July 1, 2017 to June 30, 2018 and July 1, 2016 to June 30, 2017:

	<u>2018</u>	<u>2017</u>
Beginning of year liability	\$ 67,279	\$ 47,236
Claims	621,094	850,171
Claims payments	<u>(658,446)</u>	<u>(830,128)</u>
End of year liability	<u>\$ 29,927</u>	<u>\$ 67,279</u>

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

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 10 - RELATED PARTY TRANSACTIONS

The Spartanburg Water System provides billing, collection, fleet, engineering and labor services as well as other administrative functions for the District. The amounts paid to Spartanburg Water System for all services were as follows:

	2018	2017
Billing and collection fees	\$ 613,452	\$ 499,692
Administrative fees	987,636	960,144
Labor reimbursements	560,921	583,853
Water quality and maintenance facility	166,018	200,207
Fleet service fees	138,161	136,269
Engineering	528,899	448,652
Operations fee	194,208	182,302
	<u>\$ 3,189,295</u>	<u>\$ 3,011,119</u>

The following amounts were due from (to) Spartanburg Water System at June 30, 2018 and 2017:

	2018	2017
User charges collected	\$ 1,781,973	\$ 1,871,546
Other receivables	492,270	557,752
Miscellaneous payable	<u>(895,852)</u>	<u>(994,827)</u>
	<u>\$ 1,378,391</u>	<u>\$ 1,434,471</u>

The District with the Spartanburg Water System jointly owns an office building on North Liberty Street in downtown Spartanburg, South Carolina. The facility provides offices for the engineering and other support service departments that serve both organizations. The District owns an undivided interest of the office building. At June 30, 2018 and 2017, the District's share is included in capital assets with a cost of \$257,433 and accumulated depreciation of \$180,395 and \$173,632, respectively.

The District also jointly owns with the Spartanburg Water System approximately 42 acres on Highway 295 by-pass in Spartanburg County for future additional space requirements and facilities to accommodate a maintenance shop and personnel involved in maintenance activities. At June 30, 2018 and 2017, the District's share is included in capital assets with a cost of \$648,572 and accumulated depreciation of \$401,924 and \$388,841, respectively.

The District additionally with the Spartanburg Water System jointly owns a laboratory building on Highway 295 by-pass in Spartanburg County. The facility provides offices and laboratories for the industrial wastewater, backflow prevention and water quality services. At June 30, 2018 and 2017, the District's share is included in capital assets with a cost of \$939,994 and accumulated depreciation of \$425,931 and \$400,332, respectively.

NOTE 11 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES AND COMMITMENTS

Sick Pay

As described more fully in Note 1, no estimate of any potential liability has been made.

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 11 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES AND COMMITMENTS -  
CONTINUED

Unemployment Compensation

The District is required to pay unemployment compensation on covered employees. It has chosen the alternative of paying claims as billed by the South Carolina Employment Security Commission. However, under this method of funding, no accurate estimate of any potential liability has been made.

Federal and State Assisted Programs

The District has received proceeds from federal and state grants, and/or entitlements. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Underground Storage Tanks

The District has underground storage tanks that are subject to federal and state regulations concerning cleanup costs and third party liability claims. The District has 24 hour a day monitoring systems installed on all storage tanks. However, the District is not insured in the event that a leak should occur, and no estimate of potential liability, if any, has been made in the accompanying financial statements.

Construction Commitments

Outstanding commitments on construction contracts totaled \$1,099,480 and \$8,954,423 at June 30, 2018 and 2017, respectively.

Arbitrage Rebate Liabilities

Arbitrage represents the difference or "spread" between lower interest rates on tax-exempt government securities and the higher interest on taxable investment securities. The Internal Revenue Code requires local governments to rebate arbitrage earnings to the federal government every five years for as long as the local government has tax-exempt bonds outstanding. The District does not believe an estimate of potential liability, if any, is required in the accompanying financial statements.

NOTE 12 - TAX ABATEMENTS

The District's property tax revenues were reduced by \$530,915 and \$185,157 under Fee in Lieu of Ad Valorem Tax (FILOT) agreements and Special Source Revenue Credits (SSRC) entered into by Spartanburg County for the years ended June 30, 2018 and 2017, respectively. The District received a total of \$433,816 and \$288,894 under both FILOT and SSRC tax agreements for the years ended June 30, 2018 and 2017, respectively. Under the FILOT agreements, taxpayers receive a reduction in ad valorem property taxes through reduced assessed valued and locked millage rates. Due to these agreements, the taxpayers realized a benefit of \$473,666 and \$160,726, respectively. Under the SSRC program, taxpayers receive a percentage reduction off their total property tax bill if their property qualified for the program. Due to this program, the taxpayers realized a benefit of \$57,249 and \$24,431, respectively.

SPARTANBURG SANITARY SEWER DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 13 - RECLASSIFICATIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE 14 - PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT

The District has restated its previously issued financial statements for the year ended June 30, 2017 for matters related to the following previously reported items: interest expense and capital assets - nondepreciable. The accompanying financial statements for 2017 have been restated to reflect the correction which as a result, increased net position \$56,431. The effect on the previously issued 2017 financial statements is summarized as follows:

	Previously Reported	Increase (Decrease)	Restated
Statements of Net Position			
Capital assets - nondepreciable	\$ 4,815,494	\$ 56,431	\$ 4,871,925
Total noncurrent assets	197,690,446	56,431	197,746,877
Total assets	223,914,978	56,431	223,971,409
Net investment in capital assets	41,576,507	56,431	41,632,938
Total net position	49,341,326	56,431	49,397,757
Statements of Revenues, Expenses and Changes in Net Position			
Interest expense and paying agent fees	(6,898,976)	56,431	(6,842,545)
Total nonoperating revenues (expenses)	(300,282)	56,431	(243,851)
Increase (decrease) in net position, before capital contributions	1,134,965	56,431	1,191,396
Increase in net position	4,813,433	56,431	4,869,864
Net Position - End of Year	49,341,326	56,431	49,397,757

Furthermore, the District adopted Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation required the District to record beginning net OPEB liability and contributions made subsequent to the measurement date as deferred outflows of resources and remove the net OPEB asset as required by GASB Statement 45. Beginning net position was further restated as follows:

	2017
Net Position - Beginning of Year - as Restated from Prior Period Adjustment	\$ 49,397,757
Removal of the Net OPEB Asset (GASB 45)	(32,872)
Implementation of GASB Statement 75 - Net OPEB Liability	(3,972,676)
Implementation of GASB Statement 75 - Deferred Outflows Related to OPEB	315,565
Net Position - Beginning of Year - Restated	<u>\$ 45,707,774</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

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

	2018	2017	2016	2015
District's Proportion of the Collective Net Pension Liability	0.033456%	0.034070%	0.034171%	0.034769%
District's Proportionate Share of the Collective Net Pension Liability	\$ 7,531,484	\$ 7,277,302	\$ 6,480,695	\$ 5,986,069
District's Covered Payroll	\$ 3,375,640	\$ 3,299,241	\$ 3,203,928	\$ 3,156,544
District's Proportionate Share of the Collective Net Pension Liability as a Percentage of its Covered Payroll	223.11%	220.58%	202.27%	189.64%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	53.34%	52.91%	56.99%	59.92%

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

SPARTANBURG SANITARY SEWER DISTRICT  
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
SOUTH CAROLINA RETIREMENT SYSTEM  
LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Statutorially Required Contributions	\$ 410,479	\$ 390,224	\$ 364,896	\$ 344,422
Contributions in Relation to the Statutorially Required Contributions	410,479	390,224	364,896	344,422
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 3,275,319	\$ 3,375,640	\$ 3,299,241	\$ 3,203,928
Contributions as a Percentage of Covered Payroll	12.53%	11.56%	11.06%	10.75%

**Notes to Schedules:**

June 30, 2015 was the first year of GASB 68 implementation, therefore 10-year data is not yet available.

SPARTANBURG SANITARY SEWER DISTRICT  
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS  
LAST TEN FISCAL YEARS ENDED JUNE 30

	2018
Total OPEB Liability	
Service cost	\$ 210,058
Interest on total OPEB liability	277,159
Difference between expected and actual experience	(81,564)
Benefit payments	(89,831)
Net Change in Total OPEB Liability	315,822
Total OPEB Liability - Beginning of Year	5,879,321
Total OPEB Liability - End of Year (a)	<u>\$ 6,195,143</u>
Plan Fiduciary Net Position	
Contributions - employer**	\$ 369,831
Net investment income	54,351
Benefit payments	(89,831)
Administrative expenses	(16,918)
Net Change in Plan Fiduciary Net Position	317,433
Plan Fiduciary Net Position - Beginning of Year	1,906,645
Plan Fiduciary Net Position - End of Year (b)	<u>\$ 2,224,078</u>
Net OPEB Liability - Ending (a-b)	<u>\$ 3,971,065</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	35.90%
Covered-Employee Payroll	\$ 3,299,959
Net OPEB Liability as a Percentage of Covered-Employee Payroll	120.34%

**Notes to Schedule:**

June 30, 2018 was the first year of GASB 75 implementation, therefore 10-year data is not yet available.



SPARTANBURG SANITARY SEWER DISTRICT  
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
LAST TEN FISCAL YEARS\*

	2018
Actuarially Determined Employer Contribution (ADEC)	\$ 384,989
Contributions in Relation to the ADEC	369,831
Annual Contribution Deficiency	<u>\$ 15,158</u>
Covered-Employee Payroll	\$ 3,299,959
Actual Contributions as a Percentage of Covered-employee Payroll	11.21%

\*The amounts presented were determined as of the Trust's fiscal year ending December 31.

**Notes to Schedule:**

Valuation Date January 1, 2017

**Methods and Assumptions Used to Determine Contributions Rates:**

Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay, closed
Amortization Period	21 years
Asset Valuation Method	5-year smoothed market value, 80%-120% corridor
Inflation	2.25%
Healthcare Cost Trend Rates	
Pre-medicare	7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023
Medicare	5.50% for 2016 decreasing to an ultimate rate of 5.00% by 2020
Salary Increases	3.00%-7.00%, including wage inflation of 3.00%
Investment Rate of Return	4.75%, net of OPEB plan investment expense, including price inflation
Participation Rates	The assumed annual rates of plan participation and spouse coverage were 90% and 15%, respectively.
Demographic Assumptions	Based on the 2016 experience study adopted for the SCRS pension plan.
Mortality	Based on the RP-2014 Mortality Table for Employees with a 95% multiplier to better reflect anticipated experience and provide a margin for future improvements.

June 30, 2018 was the first year of GASB 75 implementation, therefore 10-year data is not yet available.

SPARTANBURG SANITARY SEWER DISTRICT  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
FOR RETIREE HEALTH PLAN  
FOR THE LAST TEN FISCAL YEARS

Fiscal Year	Actuarially Determined Employer Contribution (ADEC)	Annual Required Contribution (ARC)	Actual Contributions	Percent Funded
2018	\$ 425,988	\$ -	\$ 447,206	104.98%
2017		343,989	353,679	102.82%
2016		332,727	346,782	104.22%
2015		340,448	336,857	98.95%
2014		287,052	288,923	100.65%
2013		275,429	283,829	103.05%
2012		270,777	287,413	106.14%
2011		279,000	248,051	88.91%
2010		312,000	355,100	113.81%
2009		303,000	276,855	91.37%

SPARTANBURG SANITARY SEWER DISTRICT  
SCHEDULE OF FUNDING PROGRESS  
FOR RETIREE HEALTH PLAN  
JUNE 30, 2017

Actuarial Valuation Date	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)
January 1, 2017	\$ 2,051,623	\$ 5,879,321	3,827,698	34.90%	\$ 3,299,959	115.99%
July 1, 2015	1,737,481	4,777,863	3,040,382	36.37%	2,911,279	104.43%
July 1, 2013	1,191,809	4,514,018	3,322,209	26.40%	2,883,564	115.21%

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

# Statistical Section

**This part of the Spartanburg Sanitary Sewer District'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 District's financial performance and well-being have changed over time.

### Revenue Capacity

These schedules contain information to help the reader assess the District's most significant revenue sources, user charges and property taxes.

### Debt Capacity

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District'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 District's financial activities take place.

### Operating Information

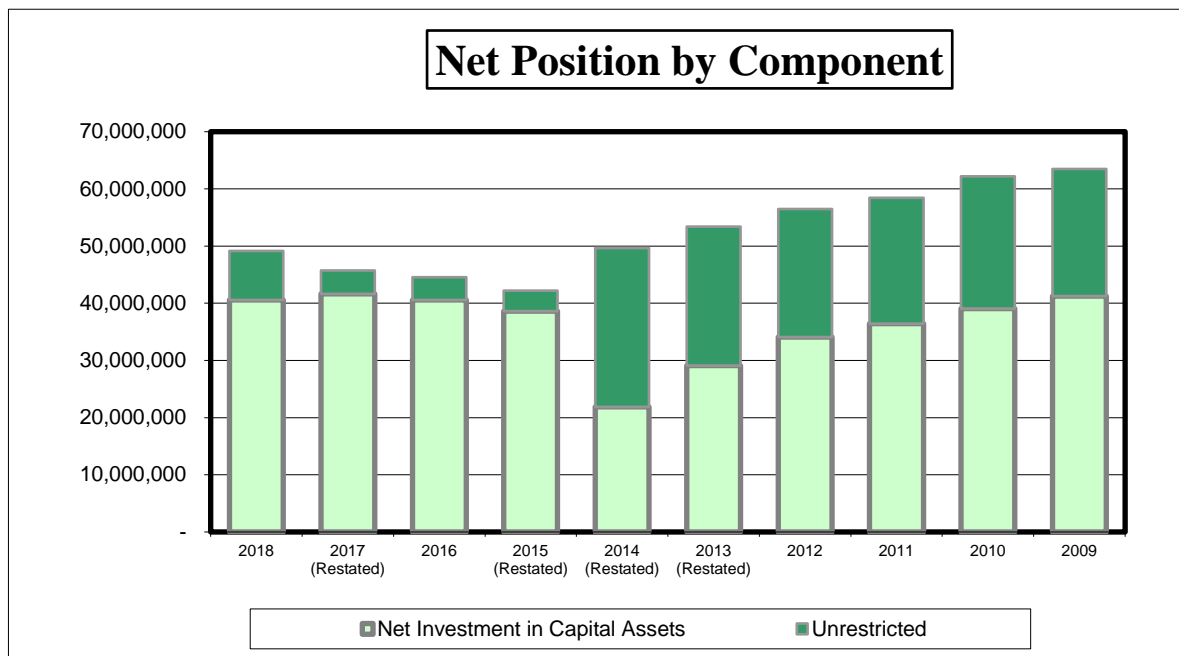
These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

**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 2009 to FY 2018**

Fiscal Year	Net Investment in Capital Assets	Unrestricted	Total Net Position
2018	\$ 40,568,904	\$ 8,586,209	\$ 49,155,113
2017 (Restated)	41,632,938	4,074,836	45,707,774
2016	40,584,822	3,943,071	44,527,893
2015 (Restated)	38,642,654	3,552,482	42,195,136
2014 (Restated)	21,861,156	27,760,264	49,621,420
2013 (Restated)	29,089,018	24,334,802	53,423,820
2012	34,054,965	22,442,683	56,497,648
2011	36,450,190	21,980,956	58,431,146
2010	39,052,825	23,117,151	62,169,976
2009	41,244,215	22,232,491	63,476,706



\* The Fiscal Year 2018 beginning unrestricted net position (FY 2017) was restated and reduced by \$3,689,983 due to the implementation of GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other than*

\* The significant decrease in unrestricted net position in Fiscal Year 2015 was due to the implementation of GASB 68 - *Accounting and Financial Reporting for Pensions*.

## Changes in Net Position

FY 2009 TO FY 2018

	FY 2018	FY 2017 (Restated)	FY 2016	FY 2015 (Restated)	FY 2014	FY 2013 (Restated)	FY 2012	FY 2011	FY 2010	FY 2009
<b>Revenues</b>										
Operating revenues										
User charge revenues	\$ 24,701,500	\$ 25,081,281	\$ 22,919,183	\$ 20,123,998	\$ 20,383,889	\$ 20,261,923	\$ 19,612,860	\$ 18,036,732	\$ 17,911,933	\$ 18,165,635
Other operating revenues	1,417,422	1,248,996	1,284,838	1,292,586	1,282,491	1,328,131	1,326,351	1,194,606	1,198,291	1,219,673
Total operating revenues	26,118,922	26,330,277	24,204,021	21,416,584	21,666,380	21,590,054	20,939,211	19,231,338	19,110,224	19,385,308
Nonoperating revenues										
Property tax collections	6,340,946	6,038,111	5,024,690	4,933,591	4,795,266	4,645,343	4,585,212	4,603,660	4,613,814	4,600,793
Other nonoperating revenues	1,088,175	778,754	624,630	391,386	279,639	358,637	257,584	245,214	400,887	561,260
Total nonoperating revenues	7,429,121	6,816,865	5,649,320	5,324,977	5,074,905	5,003,980	4,842,796	4,848,874	5,014,701	5,162,053
Total revenues	33,548,043	33,147,142	29,853,341	26,741,561	26,741,285	26,594,034	25,782,007	24,080,212	24,124,925	24,547,361
<b>Expenses</b>										
Operating expenses, before depreciation	14,501,674	14,523,095	14,147,144	13,862,028	15,624,500	13,228,455	12,455,467	12,088,292	11,587,195	11,695,601
Depreciation expense	10,887,736	10,371,935	10,095,657	9,640,858	9,225,118	8,950,903	8,660,842	8,512,687	8,422,590	7,701,323
Nonoperating expenses	6,716,137	7,060,716	6,611,994	6,878,900	6,916,202	7,546,465	7,747,848	7,916,738	7,640,535	8,159,462
Total expenses	32,105,547	31,955,746	30,854,795	30,381,786	31,765,820	29,725,823	28,864,157	28,517,717	27,650,320	27,556,386
Change in net position before capital contributions	1,442,496	1,191,396	(1,001,454)	(3,640,225)	(5,024,535)	(3,131,789)	(3,082,150)	(4,437,505)	(3,525,395)	(3,009,025)
Capital contributions	2,004,843	3,678,468	3,334,211	2,475,057	1,222,135	1,479,036	1,148,652	698,675	2,218,665	2,005,661
Change in net position	3,447,339	4,869,864	2,332,757	(1,165,168)	(3,802,400)	(1,652,753)	(1,933,498)	(3,738,830)	(1,306,730)	(1,003,364)
Net position, beginning of year, restated (2018)	45,707,774	44,527,893	42,195,136	43,360,304	53,423,820	56,497,648	58,431,146	62,169,976	63,476,706	64,480,070
Change in accounting principle	-	-	-	-	-	(1,421,075)	-	-	-	-
Net position, beginning of year, restated (2013)	-	-	-	-	-	55,076,573	-	-	-	-
Net position, end of year	\$ 49,155,113	\$ 49,397,757	\$ 44,527,893	\$ 42,195,136	\$ 49,621,420	\$ 53,423,820	\$ 56,497,648	\$ 58,431,146	\$ 62,169,976	\$ 63,476,706

## Revenues By Source

FY 2009 to FY 2018

Fiscal Year	Operating Revenues				Non Operating Revenues				Total Revenues
	User Charge Revenues	Industrial Service Fees	Treatment Charges	Miscellaneous	Connection Fees	Property Tax Collections	Interest Income	Other Revenue	
2018	\$ 24,701,500	\$ 566,058	\$ 275,210	\$ 576,154	\$ 556,654	\$ 6,340,946	\$ 381,107	\$ 150,414	\$ 33,548,043
2017 (restated)	25,081,281	492,704	145,320	610,972	466,277	6,038,111	206,175	106,302	33,147,142
2016	22,919,183	495,097	179,700	610,041	493,660	5,024,690	60,978	69,992	29,853,341
2015 (restated)	20,123,998	525,505	157,965	609,116	361,822	4,933,591	36,495	(6,931)	26,741,561
2014	20,383,889	497,374	144,513	640,604	240,208	4,795,266	21,053	18,378	26,741,285
2013 (restated)	20,261,923	501,578	110,580	715,973	228,255	4,645,343	47,900	82,482	26,594,034
2012	19,612,860	470,096	98,280	757,975	180,472	4,585,212	63,412	13,700	25,782,007
2011	18,036,732	452,401	85,645	656,560	147,642	4,603,660	94,645	2,927	24,080,212
2010	17,911,932	522,347	91,045	584,899	169,002	4,613,814	154,642	77,244	24,124,925
2009	18,165,635	518,385	80,765	620,523	226,147	4,600,793	335,113	-	24,547,361



**Operating Expenses****FY 2009 to FY 2018**

Fiscal Year	Personnel Costs	Supplies and Maintenance	Outside Services	Educational and Training	Company Expenses	Depreciation Expense	Total Operating Expenses
2018	\$ 5,309,965	\$ 2,863,160	\$ 5,776,429	\$ 185,340	\$ 366,780	\$ 10,887,736	\$ 25,389,410
2017 (Restated)	5,436,508	3,072,230	5,560,810	156,140	297,407	10,371,935	24,895,030
2016	4,956,742	2,999,581	5,779,333	144,600	266,888	10,095,657	24,242,801
2015 (Restated)	5,138,186	2,905,400	5,365,774	199,654	253,014	9,640,858	23,502,886
2014	5,183,109	4,656,950	5,387,059	150,367	247,015	9,225,118	24,849,618
2013 (Restated)	4,911,436	2,725,398	5,172,432	161,616	257,573	8,950,903	22,179,358
2012	4,713,928	2,600,460	4,723,378	118,332	299,369	8,660,842	21,116,309
2011	4,507,888	2,314,832	4,795,687	110,793	359,092	8,512,687	20,600,979
2010	4,414,626	2,266,754	4,494,869	78,066	332,880	8,422,590	20,009,785
2009	4,381,035	2,338,947	4,565,621	86,435	323,563	7,701,323	19,396,924

# Revenue Capacity

## Historical Rate Information

## FY 2009 to FY 2018

Fiscal Year	Residential Rate History* (Avg. 2 Mth. Bill)	Volume Charge (per 100 gal)
2018	87.13	0.675
2017	87.13	0.675
2016	80.50	0.675
2015	73.80	0.644
2014	73.80	0.644
2013	73.80	0.644
2012	69.00	0.602
2011	63.45	0.552
2010	63.45	0.552
2009	63.45	0.552

\* Residential rate history (avg. 2 mth. bill) is based on an average demand of 11,220 gallons per billing cycle.

**Schedule of Historical Discharge****CY 2008 to CY 2017**

Calendar Year	Billion Gallons	Average MGD*
2017	4.307	11.742
2016	4.482	12.207
2015	5.189	14.218
2014	5.129	14.051
2013	5.436	14.892
2012	4.618	12.644
2011	4.432	12.143
2010	4.215	11.550
2009	4.682	12.827
2008	3.620	9.916

\*Million gallons per day of effluent discharge

**Property Tax Collections****CY 2008 to CY 2017**

Calendar Year End	Property Taxes Levy	Property Taxes Collected	Percent Collected	Delinquent Taxes Collected	Percent Delinquent Collected	Total Collections To Date	Total Percent Collected	General Fund Millage	Bond Millage	Total Direct Rate
2017	5,046,954	4,802,196	95.15%	176,844	3.68%	4,979,040	98.65%	7.8	1.1	8.9
2016	4,654,268	4,411,841	94.79%	207,547	4.70%	4,619,388	99.25%	7.5	1.4	8.9
2015	4,548,071	4,319,618	94.98%	174,100	4.03%	4,493,718	98.80%	7.5	-	7.5
2014	4,460,353	4,232,404	94.89%	182,588	4.31%	4,414,992	98.98%	7.5	-	7.5
2013	4,465,012	4,215,799	94.42%	169,090	4.01%	4,384,889	98.21%	7.5	-	7.5
2012	4,286,070	4,061,083	94.75%	177,206	4.36%	4,238,289	98.89%	7.5	-	7.5
2011	4,286,748	4,041,995	94.29%	168,760	4.18%	4,210,755	98.23%	7.5	-	7.5
2010	4,255,448	3,963,300	93.13%	122,998	3.10%	4,086,298	96.03%	7.5	-	7.5
2009	4,297,656	3,983,816	92.70%	242,678	6.09%	4,226,494	98.34%	7.5	-	7.5
2008	4,238,632	3,875,847	91.44%	243,028	6.27%	4,118,875	97.17%	7.5	-	7.5

\* Total Direct Rate is equivalent to the Ad Valorem Tax Millage

Source: Spartanburg County Treasurer

**Ten Largest Taxpayers****CY 2008 & CY 2017**

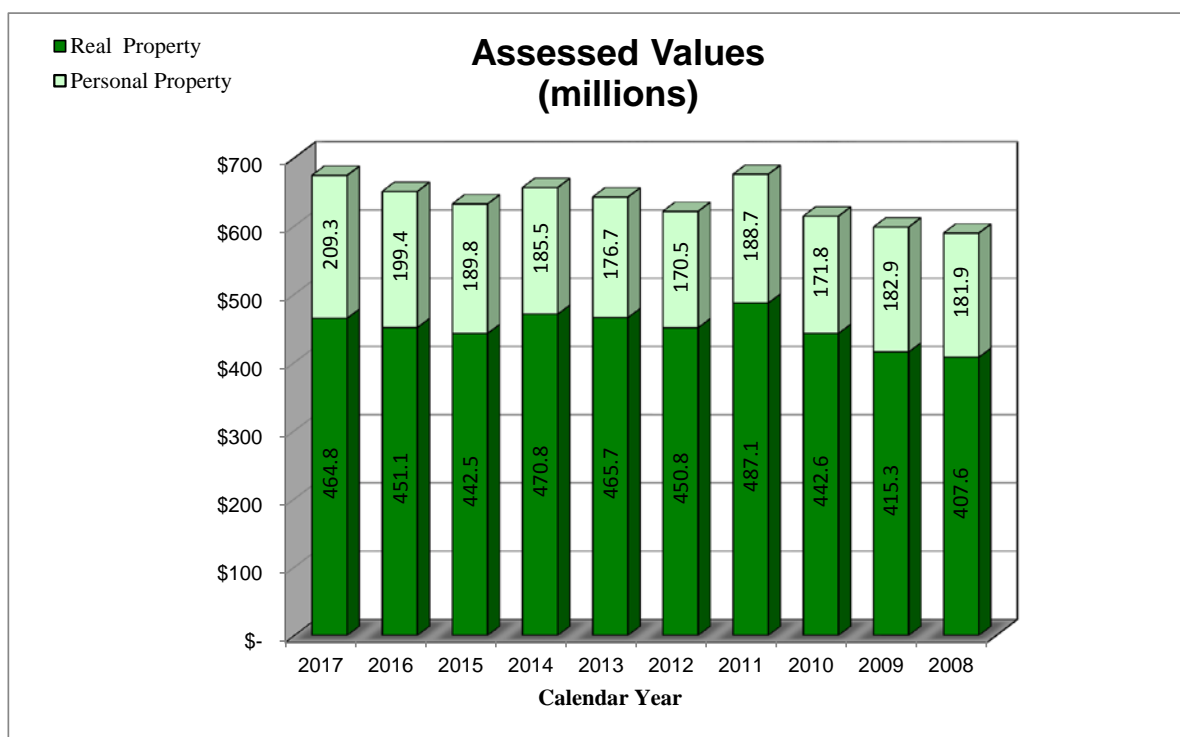
Customer	2008			2017		
	Assessed Value	Taxes Paid	2008 Ranking	Assessed Value	Taxes Paid	2017 Ranking
Duke Energy Corp	\$ 10,037,600	\$ 3,599,031	2	\$ 17,504,191	\$ 7,239,912	1
Michelin North America	6,770,898	2,112,672	3	7,425,775	2,664,444	2
R R Donnelley & Sons Co.	4,819,489	1,794,778	4	6,119,627	2,616,306	3
Mary Black Health System LLC	-	-	-	5,409,880	2,298,262	4
Spartanburg DC Inc	-	-	-	5,393,460	1,985,333	5
DSI Draexlmaier Service INC	-	-	-	3,851,309	1,404,958	6
Norfolk Southern Corp	-	-	-	3,750,257	1,452,528	7
Yeomans Charles L III Etal	3,403,290	1,280,658	7	2,953,240	1,272,846	8
Spartanburg Automotive Inc.	-	-	-	2,703,576	907,926	9
BASF Corp	-	-	-	2,700,558	1,061,798	10
BellSouth Communications	4,312,700	1,643,626	5	-	-	-
Tietex International LTD	2,812,880	833,677	8	-	-	-
Inland Western Spartanburg LLC	2,610,630	982,380	9	-	-	-
BMW Manufacturing Co LLC	25,588,088	813,653	1	-	-	-
JM Smith Corporation	2,551,460	913,361	10	-	-	-
General Motors Corp	3,724,590	1,000,126	6	-	-	-
<b>TOTAL</b>	<b>\$ 66,631,625</b>	<b>\$ 14,973,962</b>		<b>\$ 57,811,873</b>	<b>\$ 22,904,313</b>	

Taxes Paid includes fee in lieu of tax payments.

Source: Spartanburg County Auditor.

**Assessed Values****CY 2008 to CY 2017**

Calendar Year	Real Property	Personal Property	Total Assessed Value	Total Market Value	Ratio of Total Assessed to Total Market Value
2017	\$ 464,836,614	\$209,282,058	\$ 674,118,672	\$ 12,704,176,451	5.31%
2016	451,147,672	199,382,197	650,529,869	12,071,913,210	5.39%
2015	442,472,475	189,832,607	632,305,082	12,070,281,309	5.24%
2014	470,822,346	185,478,388	656,300,734	12,435,584,275	5.28%
2013	465,685,663	176,669,073	642,354,736	12,215,954,989	5.26%
2012	450,846,048	170,504,586	621,350,634	11,708,359,340	5.31%
2011	487,104,198	188,653,908	675,758,106	12,103,408,186	5.58%
2010	442,550,588	171,756,394	614,306,982	12,430,532,872	4.94%
2009	415,333,152	182,937,413	598,270,565	12,598,714,712	4.75%
2008	407,601,589	181,907,525	589,509,114	10,263,113,091	5.74%

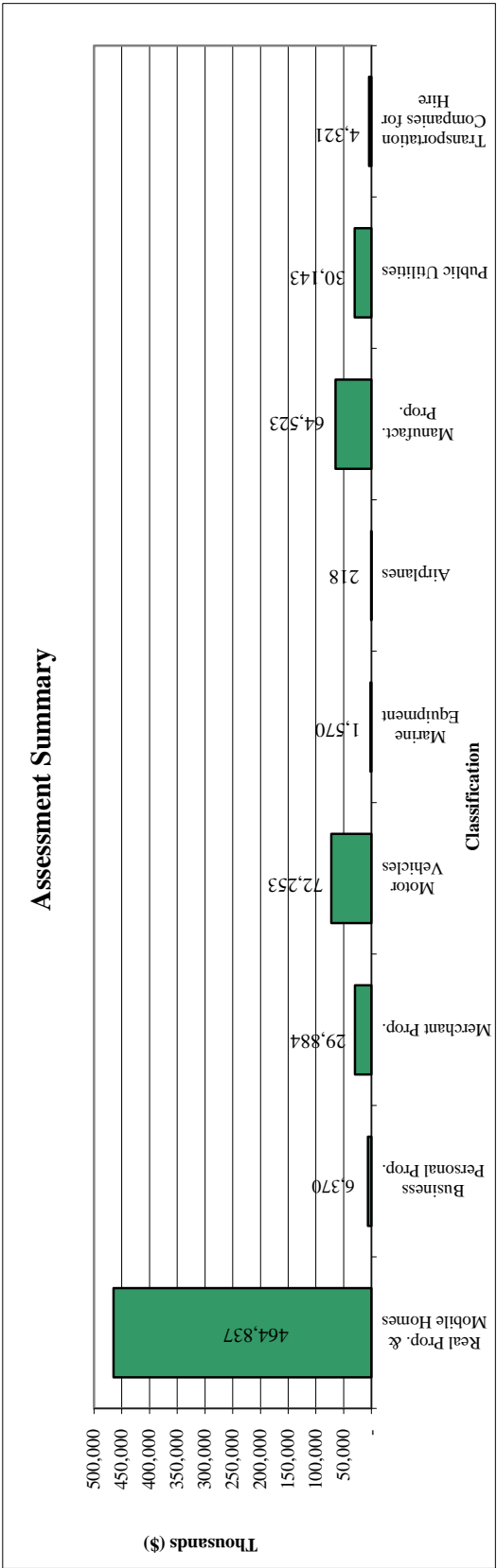


Source: Spartanburg County Auditor &amp; Assessor

Assessed Value Summary

CY 2017

Classification	Assessed Value	Assessment Ratio	Market Value
1. Real Property and Mobile Homes	\$ 464,836,614	4% & 6%	\$ 10,187,219,286
2. Business Personal Property	6,370,390	10.5%	60,670,381
3. Merchants' Furniture, Fixtures, and Equipment	29,884,476	10.5%	284,614,057
4. Motor Vehicles	72,252,984	6.0%	1,204,216,400
5. Marine Equipment	1,569,859	10.5%	14,951,038
6. Airplanes	217,790	4.0%	5,444,750
7. Manufacturing Property	64,523,220	10.5%	614,506,857
8. Public Utilities	30,142,761	10.5%	287,073,914
9. Transportation Companies for Hire	4,320,578	9.5%	45,479,768
TOTALS	\$ 674,118,672		\$ 12,704,176,451



Source: Spartanburg County Auditor



**Ten Largest Customers****FY 2009 & FY 2018**

Customer	2009			2018		
	Total Annual Revenue*	Percent of 2009 Operating Revenue	2009 Ranking	Total Annual Revenue*	Percent of 2018 Operating Revenue	2018 Ranking
Spartanburg Regional Medical Center	\$ 377,456	1.95%	1	\$ 668,723	2.56%	1
Pet Inc. Dairy Division	195,169	1.01%	6	308,941	1.18%	2
Wofford College	190,598	0.98%	8	266,262	1.02%	3
Blackman Uhler Mfg. Company	273,515	1.41%	3	250,541	0.96%	4
BASF Corporation	-	-	-	236,798	0.91%	5
Spartanburg Housing Authority	337,310	1.74%	2	221,033	0.85%	6
Michelin Tire Corp	-	-	-	223,132	0.85%	7
Contec Inc	-	-	-	204,617	0.78%	8
S C Dept of Correction-Livesay	156,406	0.81%	10	186,823	0.72%	9
Alliance Laundry & Textile	-	-	-	171,844	0.66%	10
Tietex International	202,816	1.05%	4	-	-	-
Spartanburg County	199,544	1.03%	5	-	-	-
Miliken & Company	191,225	0.99%	7	-	-	-
Sodexho Marriott	163,234	0.84%	9	-	-	-
RR Donnelly & Sons						
	<u>\$ 2,287,273</u>	<u>11.81%</u>		<u>\$ 2,738,714</u>	<u>10.49%</u>	

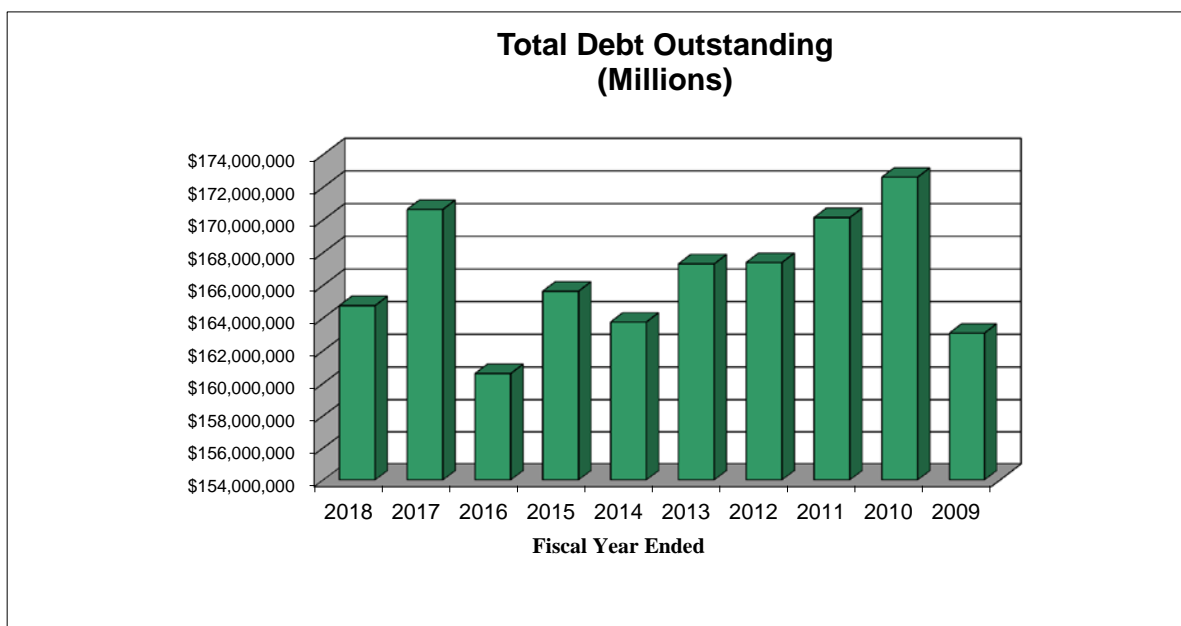
\*Customer revenue represents operating revenue.

# Debt Capacity

## Debt Outstanding

FY 2009 to FY 2018

Fiscal Year	General Obligation Bonds	Revenue Bonds	State Revolving Fund Loans	Bond Anticipation Note	Total Debt Outstanding	Per Capita*	As Share of Personal Income
2018	\$43,035,002	\$121,587,138	\$126,845	\$ -	\$164,748,985	\$ 537	1.51%
2017 (Restated)	44,799,229	125,657,109	181,197	-	170,637,535	543	1.57%
2016	30,470,117	129,637,081	234,343	250,000	160,591,541	540	1.61%
2015 (Restated)	31,832,173	133,511,661	286,310	-	165,630,144	594	2.13%
2014	24,255,865	139,154,093	337,124	-	163,747,082	607	2.09%
2013 (Restated)	21,691,429	145,226,728	386,812	-	167,304,969	608	2.03%
2012	23,283,791	143,669,145	435,396	-	167,388,332	596	1.95%
2011	24,866,154	134,725,553	481,534	10,068,000	170,141,241	593	2.01%
2010	25,650,000	136,118,725	524,892	10,318,000	172,611,617	607	2.73%
2009	27,320,000	135,178,867	566,764	-	163,065,631	570	1.79%



\*Per capita number is based on the Spartanburg County population.

**Ratios of General Bonded Debt Outstanding****FY 2009 to FY 2018**

Fiscal Year	General Obligation Bonds (1)	Percentage of Taxable Market Value (2)	Per Capita* (3)
2018	\$ 43,035,002	0.34%	\$ 140
2017 (Restated)	44,799,229	0.37%	149
2016	30,470,117	0.25%	102
2015 (Restated)	31,832,173	0.26%	108
2014	24,255,865	0.20%	83
2013 (Restated)	21,691,429	0.19%	75
2012	23,283,791	0.19%	81
2011	24,866,154	0.20%	87
2010	25,650,000	0.20%	89
2009	27,320,000	0.27%	97

Note: Details regarding the District's outstanding debt can be found in the notes to the financial statements.

- (1) General bonded debt, net of related premium
- (2) See the Schedule of Assessed Values (Table 9) for property value data
- (3) Population data can be found in the Spartanburg County Demographic Statistics (Table 15)

**Legal Debt Margin****June 30, 2018**

Assessed Valuation	
Latest assessed valuation less manufacturing depreciation reduction	<u>\$ 674,118,672</u>
Legal Debt Limit - 8% of assessed valuation	\$ 53,929,494
Amount of Debt Applicable to Debt Limit:	
General obligation bonds outstanding June 30, 2018	<u>42,027,000</u>
Legal Debt Margin*	<u>\$ 11,902,494</u>

\*The District may issue general obligation debt up to an amount equal to 8% of the last certified District assessment, without the requirement of conducting a referendum.

Ten Year Data					
Fiscal Year	Debt Limit	Net Debt Subject to Limit	Legal Debt Margin	Outstanding Net Debt/ Debt Ceiling	Legal Debt Margin/ Debt Ceiling
2018	\$ 53,929,494	\$ 42,027,000	\$ 11,902,494	77.93%	22.07%
2017	51,385,537	43,712,000	7,673,537	85.07%	14.93%
2016	46,728,334	29,982,000	16,746,334	64.16%	35.84%
2015	47,815,961	31,287,000	16,528,961	65.43%	34.57%
2014	48,852,088	23,860,000	24,992,088	48.84%	51.16%
2013	49,480,747	21,025,000	28,455,747	42.49%	57.51%
2012	44,831,116	22,560,000	22,271,116	50.32%	49.68%
2011	48,816,244	24,085,000	24,731,244	49.34%	50.66%
2010	48,234,912	25,650,000	22,584,912	53.18%	46.82%
2009	47,160,729	27,320,000	19,840,729	57.93%	42.07%

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

FY 2009 to FY 2018

	2009	2010	2011	2012	2013 (restated)	2014	2015 (restated)	2016	2017 (restated)	2018
<b>Net Income</b>										
Operating revenues	\$ 19,385,308	\$ 19,110,224	\$ 19,231,338	\$ 20,939,211	\$ 21,590,054	\$ 21,666,380	\$ 21,416,584	\$ 24,204,021	\$ 26,330,277	\$ 26,118,922
Operating expenses before depreciation and amortization	(11,695,601)	(11,587,195)	(12,088,292)	(12,455,467)	(13,228,455)	(15,624,500)	(13,862,028)	(14,147,144)	(14,523,095)	(14,501,674)
Operating income before depreciation and amortization	7,689,707	7,523,029	7,143,046	8,483,744	8,361,599	6,041,880	7,554,556	10,056,877	11,807,182	11,617,248
Depreciation	(7,701,323)	(8,422,590)	(8,512,687)	(8,660,842)	(8,950,903)	(9,225,118)	(9,640,858)	(10,095,657)	(10,371,935)	(10,887,736)
Amortization of bond cost	(107,892)	(152,879)	(130,265)	(130,235)	-	-	-	-	-	-
Operating Income (Loss)	(119,508)	(1,052,440)	(1,499,906)	(307,333)	(589,304)	(3,183,238)	(2,066,302)	(38,780)	1,435,247	729,512
<b>Nonoperating Revenues</b>										
Ad valorem taxes	4,600,793	4,613,814	4,603,660	4,585,212	4,645,343	4,795,266	4,933,591	5,024,890	6,038,111	6,340,946
Other nonoperating revenues	561,260	400,887	245,214	257,594	358,637	279,639	391,386	624,630	778,754	1,088,175
Nonoperating Expenses	(8,051,570)	(7,487,656)	(7,786,473)	(7,617,613)	(7,546,465)	(6,916,202)	(6,878,900)	(6,611,994)	(7,060,716)	(6,716,137)
Capital Contributions	2,005,661	2,218,665	698,675	1,148,652	1,479,036	1,222,135	2,475,057	3,334,211	3,678,468	2,004,843
Net Income (Loss) Per Financial Statements	<u>\$ (1,003,364)</u>	<u>\$ (1,306,730)</u>	<u>\$ (3,738,830)</u>	<u>\$ (1,933,498)</u>	<u>\$ (1,652,753)</u>	<u>\$ (3,802,400)</u>	<u>\$ (1,165,168)</u>	<u>\$ 2,332,757</u>	<u>\$ 4,869,864</u>	<u>\$ 3,447,339</u>
<b>Net Income (Loss) Per Financial Statements</b>	<b>\$ (1,003,364)</b>	<b>\$ (1,306,730)</b>	<b>\$ (3,738,830)</b>	<b>\$ (1,933,498)</b>	<b>\$ (1,652,753)</b>	<b>\$ (3,802,400)</b>	<b>\$ (1,165,168)</b>	<b>\$ 2,332,757</b>	<b>\$ 4,869,864</b>	<b>\$ 3,447,339</b>
Less: (Gain) loss on sale of capital assets	-	(77,244)	(2,927)	(13,700)	(82,482)	(18,378)	6,931	(69,992)	(106,302)	(150,414)
Less: Restricted investment income	(102,362)	(55,630)	(9,351)	(6,617)	(3,030)	(2,351)	(18,522)	(29,724)	(157,282)	(270,665)
Less: Capital Contributions	(2,005,661)	(2,218,665)	(698,675)	(1,148,652)	(1,479,036)	(1,222,135)	(2,475,057)	(3,334,211)	(3,678,468)	(2,004,843)
Less: Ad valorem used for GO debt service (1)	(2,820,323)	(2,720,539)	(2,637,456)	(2,213,339)	(1,932,803)	(1,432,338)	(1,783,899)	(1,864,135)	(2,967,750)	(3,219,960)
Less: Transfers into rate stabilization fund	(68,459)	(25,479)	(14,259)	(10,621)	(5,985)	(7,918)	(7,918)	(14,647)	(251,016)	(937,209)
Plus: Transfers out of rate stabilization fund	200,000	885,000	1,000,000	-	(208,892)	450,000	800,000	385,000	-	-
Plus: Excess transfers in over out	-	-	-	10,621	208,892	-	-	-	251,016	937,209
Plus: Depreciation	7,701,323	8,422,590	8,512,687	8,660,842	8,950,903	9,225,118	9,640,858	10,095,657	10,371,935	10,887,736
Plus: Interest expense	8,037,102	7,472,459	7,769,937	7,597,710	7,181,236	6,796,352	6,314,603	6,611,994	6,842,545	6,716,137
Plus: Amortization of bond cost	107,892	152,879	130,265	130,235	-	-	-	-	-	-
Plus: Bond issuance costs	-	-	-	-	226,723	-	517,554	-	218,171	-
Plus: Pension Adjustment	-	-	-	-	-	-	74,972	74,908	226,865	292,681
Plus: OPEB adjustment	-	-	-	-	-	-	-	-	-	(53,503)
<b>Net Earnings per Revenue Bond Covenant</b>	<u><b>\$ 10,046,148</b></u>	<u><b>\$ 10,528,641</b></u>	<u><b>\$ 10,311,391</b></u>	<u><b>\$ 11,072,981</b></u>	<u><b>\$ 11,208,748</b></u>	<u><b>\$ 9,987,883</b></u>	<u><b>\$ 11,904,354</b></u>	<u><b>\$ 14,197,607</b></u>	<u><b>\$ 15,619,578</b></u>	<u><b>\$ 15,644,508</b></u>

## Debt Service Requiring Coverage, Per Covenant

Revenue Bond Debt Service	\$ 7,211,919	\$ 6,953,424	\$ 7,086,293	\$ 7,683,658	\$ 7,614,245	\$ 8,431,899	\$ 9,394,938	\$ 9,092,681	\$ 9,090,061	\$ 9,043,103
GO Bond Debt Service Paid with Revenues (1)	301,896	304,323	294,834	190,664	188,661	-	-	-	-	-

## Debt Service Covenant for Coverage Test

<b>Debt Service Coverage Ratio Based on Revenue Bond Coverage (2) (4)</b>	<b>\$ 7,513,815</b>	<b>\$ 7,257,747</b>	<b>\$ 7,361,127</b>	<b>\$ 7,874,322</b>	<b>\$ 7,802,906</b>	<b>\$ 8,431,899</b>	<b>\$ 9,394,938</b>	<b>\$ 9,092,681</b>	<b>\$ 9,090,061</b>	<b>\$ 9,043,103</b>
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## Total District Debt Service Coverage Calculation

Net Earnings per Revenue Bond Covenant	\$ 10,046,148	\$ 10,528,641	\$ 10,311,391	\$ 11,072,981	\$ 11,208,748	\$ 9,987,883	\$ 11,904,354	\$ 14,197,607	\$ 15,619,578	\$ 15,644,509
Plus: Ad valorem taxes used for GO debt service	2,820,323	2,720,539	2,637,456	2,213,339	1,932,803	1,432,338	1,783,899	1,864,135	2,967,750	3,219,960

Adjusted Net Earnings

	\$ 12,866,471	\$ 13,249,180	\$ 12,948,847	\$ 13,286,320	\$ 13,141,551	\$ 11,420,221	\$ 13,688,253	\$ 16,051,742	\$ 18,587,328	\$ 18,864,469
Total District Debt Service	\$ 10,334,138	\$ 9,978,286	\$ 9,998,563	\$ 10,087,661	\$ 10,242,527	\$ 10,243,396	\$ 10,085,583	\$ 10,946,816	\$ 12,057,811	\$ 12,283,053
<b>Total District Debt Service Coverage (3), (4)</b>	<b>1.25</b>	<b>1.33</b>	<b>1.30</b>	<b>1.32</b>	<b>1.30</b>	<b>1.11</b>	<b>1.36</b>	<b>1.47</b>	<b>1.54</b>	<b>1.54</b>

(1) Based on percentages provided in the SSSD Financial Planning and Rate Model Schedule 2B Debt Service Cost Allocations to determine portion of GO debt attributable to T&amp;T (treatment and transportation) and Collection.

(2) The coverage is determined by dividing the Net Earnings per Revenue Bond Coverage by the Total Revenue Bond Debt Service

(3) The coverage is determined by dividing the Adjusted Net Earnings by the Total System Debt Service Coverage

(4) The Revenue Bond Coverage must be at least 110% to be in compliance with the Revenue Bond Covenant

# Demographic and Economic Information

## Spartanburg County Demographic Statistics

CY 2008 to CY 2017

Calendar Year	(1) July 1 Population	Personal Income (1)		(3) Median Age	(4) School Enrollment	(5) Unemployment Rate
		Total	Per Capita			
2017	306,854	\$11,873,558,000	39,386	38.2	46,385	3.7%
2016	301,463	11,501,469,000	38,686 *	38.5	47,825	3.4%
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	22,230	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%

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 &amp; Statistical Services

(4) South Carolina Department of Education - 135-DAY PUPIL ACCOUNTING REPORT FY2009

<http://ed.sc.gov>

(5) U.S. Department of Labor, Bureau of Labor and Statistics



## FY 2018 &amp; FY 2008

Company Name	Employees and % of Workforce		
	2018	%	2008
BMW Manufacturing Corporation	10,000	7.1%	5,400
Spartanburg County Schools	7,093	5.1%	5,185
Spartanburg Regional Medical Center	3,444	2.5%	4,607
State of South Carolina	3,159	2.3%	2,387
Spartanburg County	1,553	1.1%	1,379
Mary Black Memorial Hospital	1,400	1.0%	1,006
Michelin Tire Company	1,100	0.8%	952
Milliken & Company	1,037	0.7%	N/A*
Inman Mills	678	0.5%	0
Kohler Company	615	0.4%	909
Spartanburg Steel	610	0.4%	601
Sealed Air (Cryovac)	526	0.4%	1152
R. R. Donnelley	475	3.0%	580
Contec Inc.	300	0.2%	N/A*
Tietex Corporation	286	0.2%	625

**Data Source:**

Spartanburg County Economic Development Corporation and individual employers

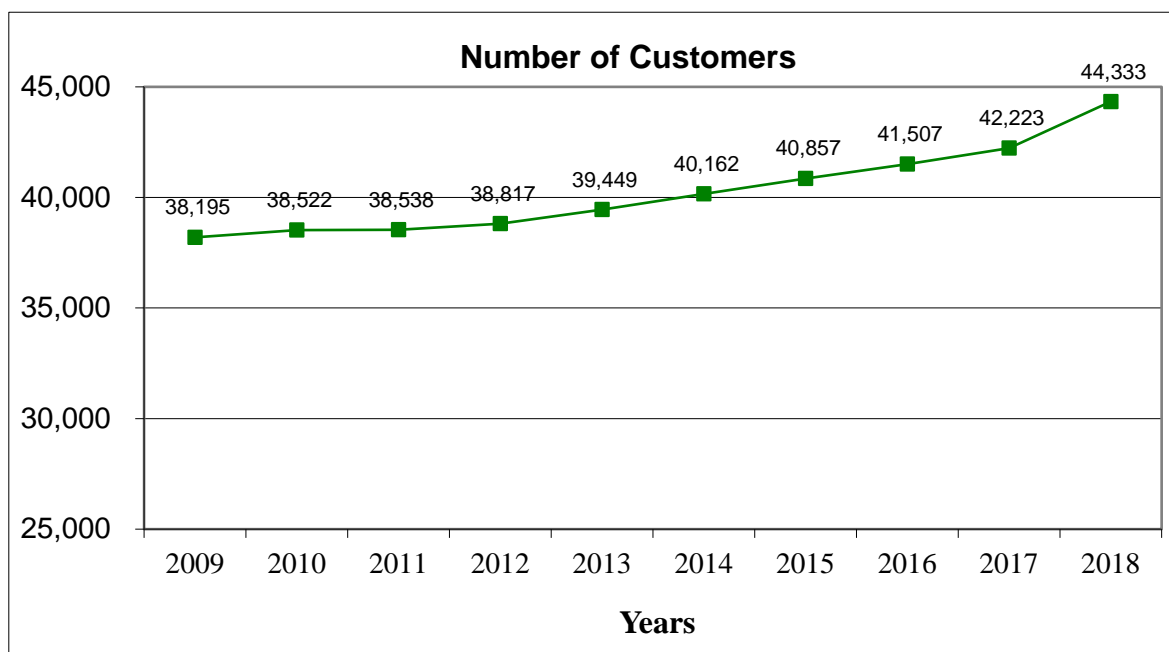
(N/A\*) Data unavailable

# Operating Information

## Number of District Customers

FY 2009 to FY 2018

Fiscal Year	Total Number of Customers
2018	44,333
2017	42,223
2016	41,507
2015	40,857
2014	40,162
2013	39,449
2012	38,817
2011	38,538
2010	38,522
2009	38,195



## Schedule of User Charges

FY 2018

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

**Volume Charge (per 100 gallons)**

Treatment and Transportation Charge

\$ 0.483

Collection Charge

\$ 0.192

\$ 0.675

Collection Charge is only charged to customers for which the District provides collection services.

## Schedule of Capacity Fees

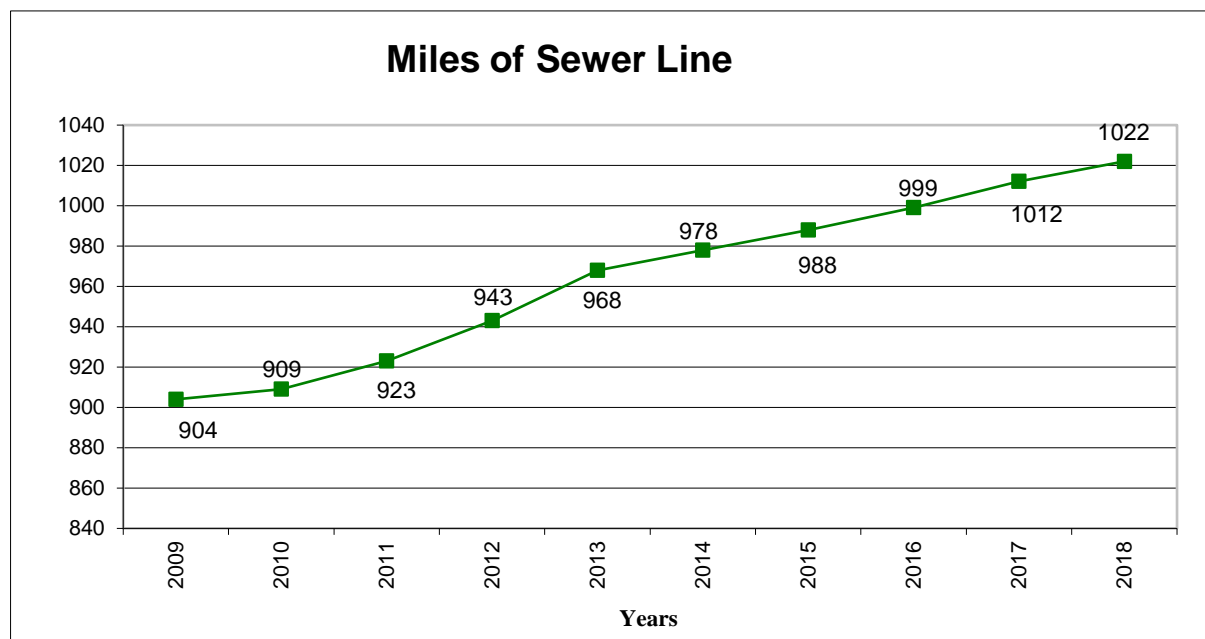
FY 2018

REU (1)	Discharge Gallons per Day	Capacity Fee Rates(2) (\$)
1	300	450
5	1,500	1,125
15	4,500	2,250
32	9,600	3,600
75	22,500	7,200
113	33,900	8,975
150	45,000	11,250
253	75,900	17,438
355	106,500	23,625
458	137,400	29,813
560	168,000	36,000
670	201,000	39,500
780	234,000	43,000
890	267,000	46,500
1000	300,000	50,000

- (1) Capacity fees for flows not listed in the table are calculated based upon straight line interpolation between listed fees. In making the calculations, discharge flows are rounded to the nearest whole Residential Equivalent Unit ("REU") which is equal to 300 gallons per day. The wastewater discharge from a single family residence is equal to one (1) REU.
- (2) Capacity fee rates include recovery of a portion of capital costs related to collection system assets in addition to treatment plant and interceptor assets.

**Miles of Sewer Line****FY 2009 to FY 2018**

Fiscal Year	Miles of Sewer Line	Percent Increase
2018	1,022	1.14%
2017	1,012	1.27%
2016	999	1.09%
2015	988	1.00%
2014	978	1.01%
2013	968	2.56%
2012	943	2.07%
2011	923	1.48%
2010	909	0.54%
2009	904	2.84%



**Schedule of Treatment Plants****FY 2018**

<u>Treatment Plant</u>	<u>Permitted Capacity (MGD)</u>	<u>Average Flow (MGD)</u>
Clifton Converse	0.290	0.123
Cowpens	1.500	0.154
Fairforest	25.000	9.918
Fingerville	0.020	0.008
Lower North Tyger River	3.100	1.188
Pacolet Mills	0.300	0.062
Page Creek	1.000	0.322
South Tyger River	1.000	0.203
	<u>32.210</u>	<u>11.978</u>

**Number of Employees****FY 2009 to FY 2018**

Fiscal Year	Number of Employees
2018	74
2017	76
2016	73
2015	70
2014	68
2013	69
2012	69
2011	69
2010	69
2009	69

