



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

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**SPARTANBURG WATER SYSTEM  
SPARTANBURG, SOUTH CAROLINA**

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

**SUBMITTED BY:  
FINANCE DEPARTMENT**

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

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# **Spartanburg Water System Officials**

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

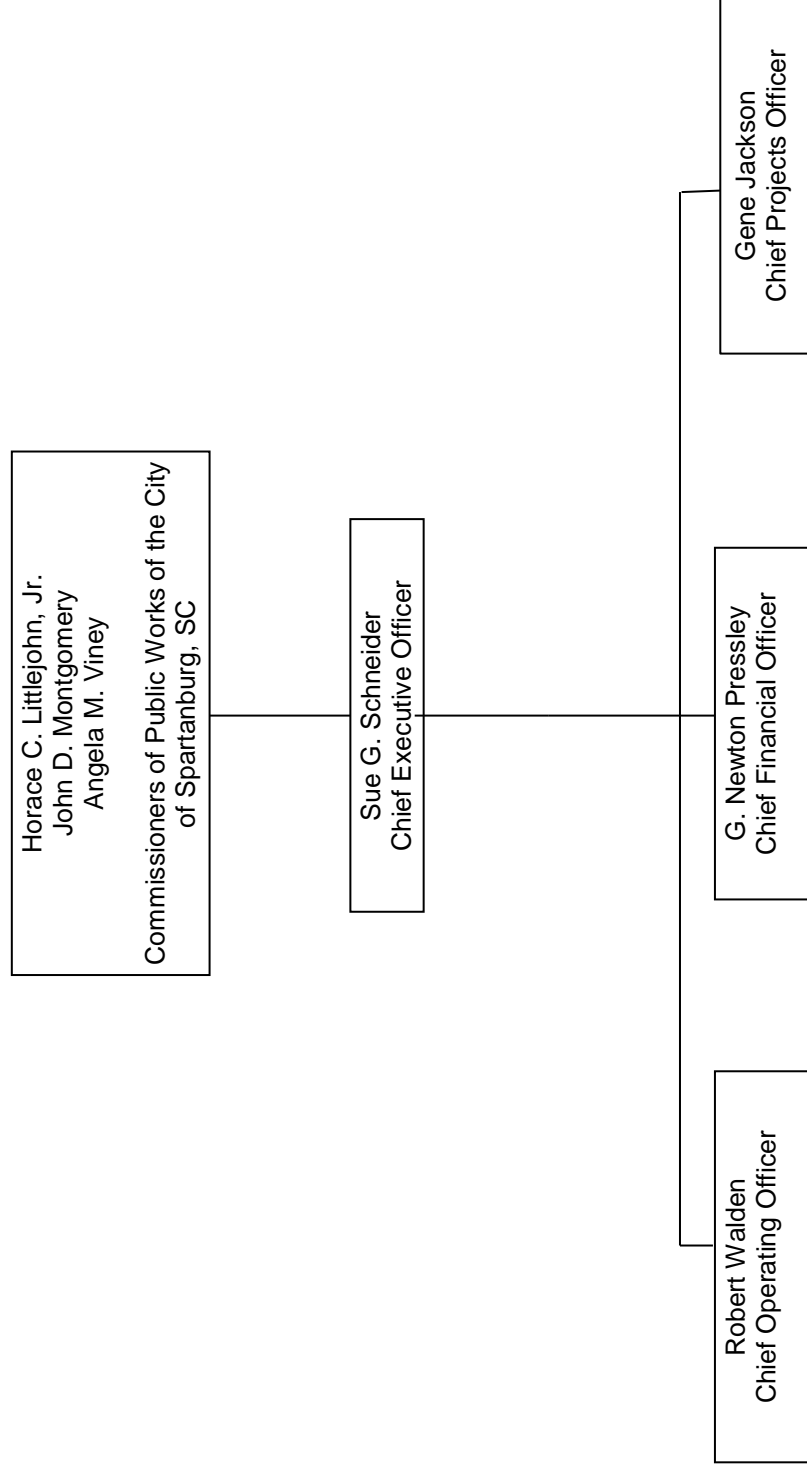
### **Commissioners**

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

### **Senior Management Staff**

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

# Spartanburg Water System Organization Chart





Letter of Transmittal  
December 4, 2018

To the Commissioners and Customers  
of the Spartanburg Water System

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

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

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

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

## PROFILE OF THE SYSTEM

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

The System is located in Spartanburg County, which is located in the northwest Piedmont section of South Carolina on the I-85 corridor between Atlanta, Georgia and Charlotte, North Carolina. The System serves retail customers located inside and outside the city limits of the City and the Towns of Cowpens, Pacolet and Landrum. Additionally, the System provides water on a wholesale basis through master meters to two water districts, two water companies, and one town. These wholesale customers are located primarily inside Spartanburg County and, to a lesser extent, Cherokee County and Union County.

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

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

## **LOCAL ECONOMY**

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

The city serves as the national headquarters for Denny's, QS/1, and Advance America. The Chapman Cultural Center serves Spartanburg's cultural community for visual and performing arts, science and history. The 86,000-square-foot center is in downtown Spartanburg, adjacent to Barnet Park. 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 System adopts an annual operating budget for management and financial planning purposes. The System's computerized financial planning and rate-setting model is updated annually to provide for a five-year financial plan. Capital improvement plans, and applicable debt service projections for future bond issues, are incorporated in the financial planning process. The five-year plan is reviewed with the Commission, which adopts the budget and rates for the upcoming year only. The overall objective of the financial planning process is to minimize the impact of customer rate increases, while maintaining required debt service coverage. Other considerations of the financial planning process include: volume trends by customer class; maintaining sufficient fund balances to meet the System's operations, maintenance, and capital improvement needs; growth trends for various expenditure categories; and the comparison of customer rates to other utilities in the region.



During the fiscal year, financial management tracking includes the following: monthly preparation and analytical review of departmental and company-wide financial reports; significant expenditure variances require follow-up with the responsible budget manager; the company-wide financial report is presented at the monthly Commission meeting; utility user charges are monitored monthly in relation to the approved budget and historical results; the tracking of utility user charges is performed for revenues and flows by customer class.

The Red Flags Rule is federal legislation that requires government agencies, including utilities, to develop written, board-approved programs designed to detect, prevent, and mitigate identity theft. A written Red Flags Identity Theft Prevention Program was approved by the Commissioners on April 28, 2009; the program details the procedures implemented to verify the identity of applicants opening new accounts and to protect sensitive customer information such as social security numbers, bank account information, and credit card numbers. The Red Flags Rule program is monitored on an ongoing basis to ensure compliance with procedures and to provide training. The annual Red Flags Program report was provided at the June 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 System's cash management policy provides that available funds are invested overnight and longer-term in accordance with state law, which permits the following types of investments: obligations of the United States and its agencies, general obligations of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit collaterally secured, repurchase agreements secured by the foregoing obligations, and the State Treasurer's Investment Pool. For more information regarding the June 30, 2018 investment distribution, see Note 2 to the Financial Statements.

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

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

## **FINANCIAL CONDITION**

The decrease in net position for fiscal year 2018 was \$4,338,876, a 6.4% decrease for the fiscal year, which was a result of an increase in net position of \$5,691,067 offset by the restatement and reduction of net position of \$10,029,943 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 953 accounts, or 1.6%, for fiscal year 2018. The average annual growth rate over the past five years was 1.1%. The System's revenue bond covenants require debt service coverage of 110% for Revenue Bonds. The debt service coverage ratio was 186% for fiscal year 2018. A recent rate survey of comparable utilities in the region indicated that the System's customer rates compared favorably with the majority of the agencies in the survey.

Various funds are maintained to meet the operational, maintenance, and capital improvement needs of the system. The Depreciation Fund provides for the renovation and replacement of operational equipment and system facilities and has been adequately funded in recent years; this fund had a June 30, 2018 balance of \$8,171,629.

## AWARDS

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

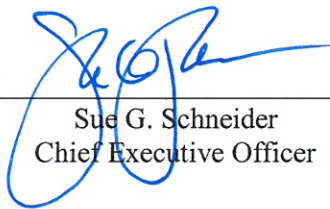
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Spartanburg Water System for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the fifteenth year 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

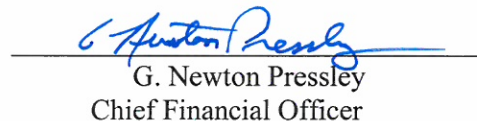
We appreciate the support of the Commissioners and the dedication of all our System employees.

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 Water System  
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 Water System  
200 Commerce Street  
Spartanburg, South Carolina

## INDEPENDENT AUDITOR'S REPORT

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 Water System 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 16 to the financial statements, in the year ended June 30, 2018, the Spartanburg Water System adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of the System's proportionate share of the collective net pension liability and employer contributions, schedule of changes in the total OPEB liability and related ratios, schedule of contributions, and schedule of employer contributions and funding progress for retiree health plan, 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 basic financial statements that collectively comprise the Spartanburg Water System's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*McAbee, Schwartz, Halliday & Co.*

Spartanburg, South Carolina  
December 4, 2018

## **Spartanburg Water System Management's Discussion and Analysis**

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

### **Financial Highlights**

As of June 30, 2018, total assets of \$267,955,538 and deferred outflows of resources of \$10,783,609 exceeded total liabilities of \$215,605,307 and deferred inflows of resources of \$126,110 by \$63,007,730. For the fiscal year 2017, total assets of \$255,223,663 and deferred outflows of resources of \$7,577,207 exceeded total liabilities of \$195,454,264 by \$67,346,606.

For the fiscal year ended June 30, 2018, the increase in net position, before capital contributions, was \$5,014,075. The System's increase in net position, after capital contributions of \$676,992, was \$5,691,067. For the fiscal year 2017, the increase in net position, before capital contributions, was \$6,268,512. The System's increase in net position, after capital contributions of \$923,529, was \$7,192,041.

For fiscal year 2018, operating revenues decreased by \$1,366,118 to \$40,855,351 or 3.2%, nonoperating revenues increased by \$747,269 to \$4,981,061 or 17.7%, and total expenses increased by \$635,588 to \$40,822,337 or 1.6%. For fiscal year 2017, operating revenues increased by \$2,380,333 to \$42,221,469 or 6.0%. Nonoperating revenues decreased by \$48,825 to \$4,233,792 or 1.1%. Total expenses increased by \$552,412 to \$40,186,749 or 1.4%.

The System's revenue bond covenants require debt service coverage of 110% for all revenue bonds. The fiscal year 2018 total system revenue bond debt service coverage ratio was 186%. The fiscal year 2017 total system revenue bond debt service coverage ratio was 181%.

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

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

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

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

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

## Financial Analysis of the System

The Condensed Statements of Net Position are provided below as a summary of Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position for the years ended June 30, 2018, 2017 and 2016. The largest portion of the System's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding.

### Condensed Statements of Net Position

	2018	2017	2016
<b>Assets</b>			
Current and Noncurrent Assets	\$ 70,577,100	\$ 58,745,977	\$ 63,289,868
Capital Assets	197,378,438	196,477,686	191,686,553
<b>Total Assets</b>	<b>\$ 267,955,538</b>	<b>\$ 255,223,663</b>	<b>\$ 254,976,421</b>
<b>Deferred Outflows of Resources</b>			
Bond Defeasance Loss	\$ 5,733,143	\$ 4,050,096	\$ 5,782,626
Deferred Outflows from Pension	3,797,289	3,527,111	2,668,847
Deferred Amounts Related to OPEB	1,253,177	-	-
<b>Total Deferred Outflows of Resources</b>	<b>\$ 10,783,609</b>	<b>\$ 7,577,207</b>	<b>\$ 8,451,473</b>
<b>Liabilities</b>			
Current Liabilities	\$ 14,173,232	\$ 13,753,461	\$ 13,239,227
Noncurrent Liabilities	201,432,075	181,700,803	188,599,599
<b>Total Liabilities</b>	<b>\$ 215,605,307</b>	<b>\$ 195,454,264</b>	<b>\$ 201,838,826</b>
<b>Deferred Inflows of Resources</b>			
Deferred Inflows from Pension	\$ 126,110	\$ -	\$ 1,434,503
<b>Net Position</b>			
Net Investment in Capital Assets	\$ 77,905,385	\$ 76,099,078	\$ 71,655,431
Unrestricted	(14,897,655)	(8,752,472)	(11,500,866)
<b>Total Net Position</b>	<b>\$ 63,007,730</b>	<b>\$ 67,346,606</b>	<b>\$ 60,154,565</b>

In fiscal year 2018, current and noncurrent assets increased by \$11,831,123 to \$70,577,100, due to an increase in restricted and unrestricted investments offset by a decrease in restricted and unrestricted cash, accounts receivable – net of allowance for doubtful accounts, and inventories. In fiscal year 2017, there was a decrease in current and noncurrent assets of \$4,543,891 to \$58,745,977 due to a decrease in accounts receivable – net of allowance for doubtful accounts and restricted cash offset by an increase in cash, inventories, and restricted investments.

Capital assets increased by \$900,752 to \$197,378,438 in fiscal year 2018 and increased by \$4,791,133 to \$196,477,686 in fiscal year 2017. See Capital Assets section on page 9 for further explanation.

Current and noncurrent assets included cash and investments of \$62,507,269. The distribution by fund of the year-end balances for fiscal years 2018 and 2017 is provided below:

<b>Fund</b>	2018	2017
Operating	\$ 5,680,263	\$ 5,155,541
Debt Service Trust Account	8,310,984	11,308,931
Rate Stabilization	3,639,849	2,610,000
Depreciation	8,171,629	5,145,723
Capital Project Funds		
Capital	1,931,998	2,204,068
Water Line Repair/Replacement	3,621,835	3,014,160
Bond Funds	31,150,711	19,347,663
<b>Total Cash and Investments</b>	<b>\$ 62,507,269</b>	<b>\$ 48,786,086</b>



Current and noncurrent assets also included receivables of \$6,494,598, with the substantial portion associated with customer accounts receivable, net of allowance for doubtful accounts, of \$5,583,199 and the intercompany receivable from Spartanburg Sanitary Sewer District of \$895,852. This is compared to the fiscal year 2017 receivables of \$7,991,425 with customer accounts receivable, net of allowance for doubtful accounts, of \$6,973,687, and intercompany receivable from Spartanburg Sanitary Sewer District of \$994,827.

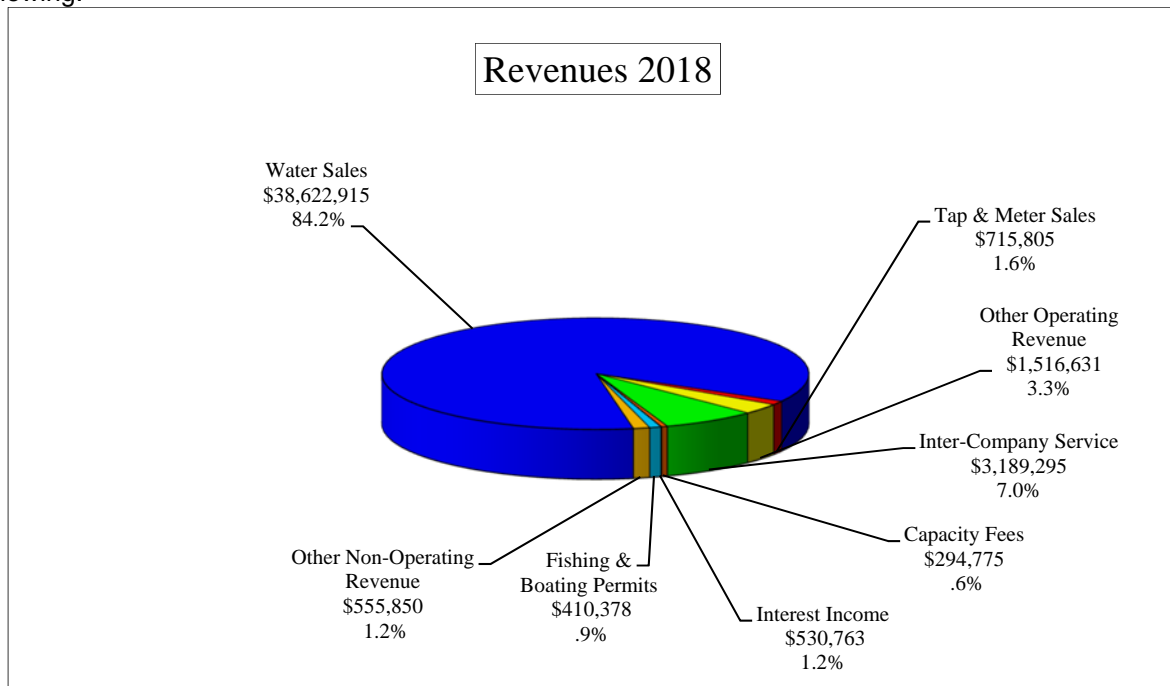
Current liabilities as of June 30, 2018 included accounts payable from operating funds of \$667,022, accounts payable from capital funds of \$858,564, and retainage payable of \$429,325. Current liabilities as of June 30, 2017 included accounts payable from operating funds of \$605,113, accounts payable from capital funds of \$1,058,529, and retainage payable of \$100,224. The current portion of long-term debt totaled \$6,135,000 and \$6,025,000 at June 30, 2018 and 2017, respectively.

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

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

	2018	2017	2016
Revenues			
Operating Revenues			
Water Sales	\$ 38,622,915	\$ 40,183,098	\$ 37,898,737
Tap & Meter Sales	715,805	603,515	588,520
Other Operating Revenues	1,516,631	1,434,856	1,353,879
	<u>40,855,351</u>	<u>42,221,469</u>	<u>39,841,136</u>
Nonoperating Revenues			
Intercompany Services	3,189,295	3,011,119	3,145,181
Other Nonoperating Revenues	1,791,766	1,222,673	1,137,436
	<u>4,981,061</u>	<u>4,233,792</u>	<u>4,282,617</u>
Total Revenues	<u>45,836,412</u>	<u>46,455,261</u>	<u>44,123,753</u>
Expenses			
Operating Expenses, Before Depreciation	25,633,608	23,516,057	23,292,434
Depreciation Expense	8,204,100	7,872,092	7,244,640
Nonoperating Expenses	6,984,629	8,798,600	9,097,263
Total Expenses	<u>40,822,337</u>	<u>40,186,749</u>	<u>39,634,337</u>
Excess, Before Capital Contributions	5,014,075	6,268,512	4,489,416
Capital Contributions	<u>676,992</u>	<u>923,529</u>	<u>1,253,314</u>
Change in Net Position	5,691,067	7,192,041	5,742,730
Net Position, Beginning of Year-Restated (2018)	<u>57,316,663</u>	<u>60,154,565</u>	<u>54,411,835</u>
Net Position, End of Year	<u><u>\$ 63,007,730</u></u>	<u><u>\$ 67,346,606</u></u>	<u><u>\$ 60,154,565</u></u>

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



Water sales were comprised of metered volume charges of \$30,156,161, base charges of \$8,343,404, and other miscellaneous billings of \$123,350. Water sales decreased by \$1,560,183 or 3.9%. Volume charges decreased by 5.9%, which reflected the decrease in billed volume as follows:

- The billed volume for fiscal year 2018 was 65,135,148 (100 gallons), a decrease of 1,578,715 or 2.4%, from fiscal year 2017. The billed volume for fiscal year 2017 was 66,713,863 (100 gallons), an increase of 4,651,779 or 7.5%, over fiscal year 2016 primarily due to an increase in irrigation use. The change in billed volume for fiscal years 2018 and 2017 was distributed among the following customer classes:

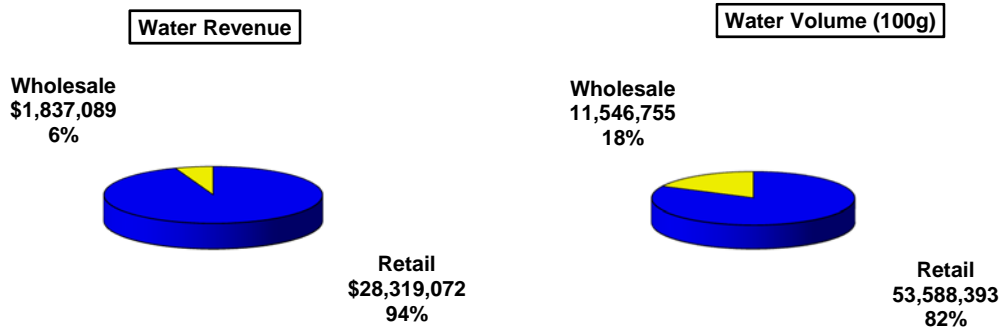
	FY17 to FY18 Incr./Decr. (100g)	% of Incr./Decr.	FY16 to FY17 Incr./Decr. (100g)	% of Incr./Decr.
Retail				
Residential	(447,645)	-1.4%	2,397,926	8.3%
Commercial	(493,495)	-3.3%	1,212,817	8.7%
Industrial	(201,207)	-2.4%	261,947	3.2%
Total Retail	(1,142,347)	-7.1%	3,872,690	7.6%
Wholesale	(436,368)	-3.6%	779,089	7.0%
System Total	(1,578,715)	-2.4%	4,651,779	7.5%

The fiscal year 2018 volume decrease resulted primarily from the decrease in irrigation use.

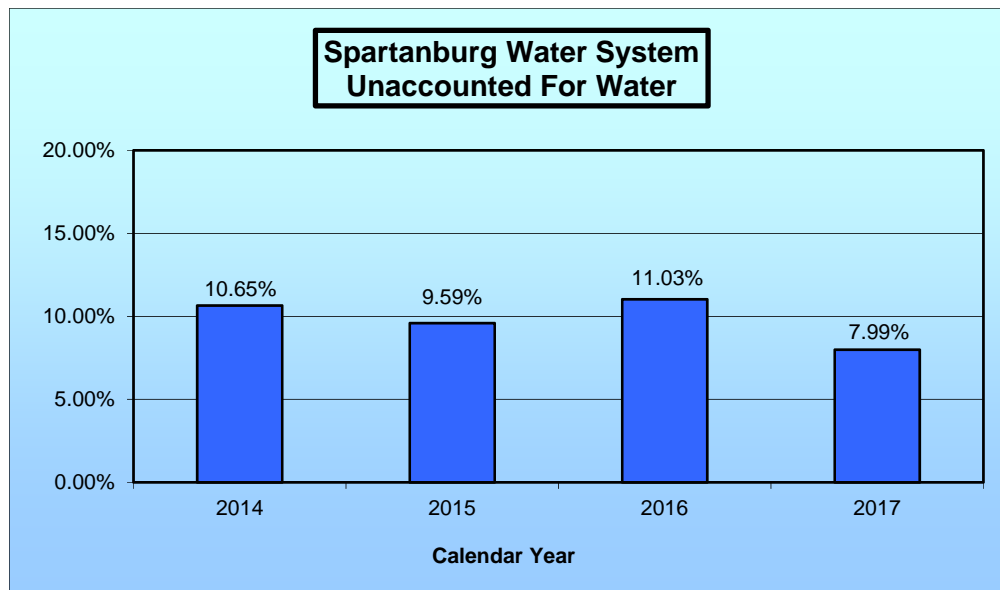
Base charge revenue for fiscal year 2018 increased by \$259,423 over fiscal year 2017, resulting from the growth in the residential customer base. The increase from fiscal year 2017 over fiscal year 2016 was \$1,906,046.

Fiscal year 2018 volume charges are further analyzed by the following charts:

#### Fiscal Year 2018 Metered Volume Charges – Revenue vs. Volume



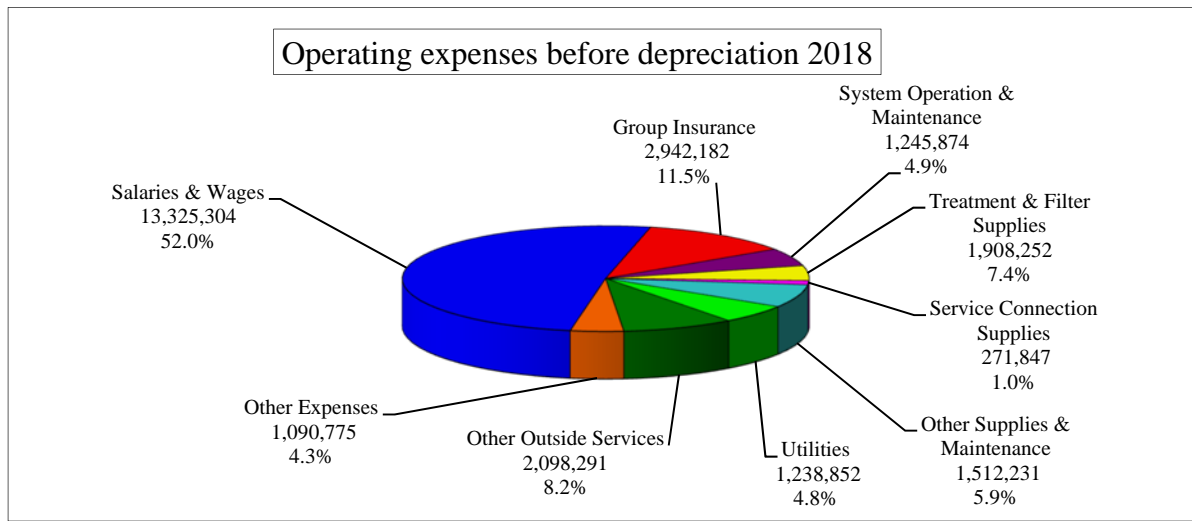
The System maintains a comprehensive tracking program to monitor Unaccounted for Water, as reflected graphically, by calendar year.



In fiscal year 2018, other nonoperating revenue increased by \$569,093, due to an increase in capacity fees of \$21,010, lake revenue of \$47,244, interest income of \$448,438, miscellaneous income of \$36,980, and administrative income of \$44,629, offset by a decrease in gain on sale of capital assets of \$29,208. In fiscal year 2017, other nonoperating revenue increased by \$85,237, due to an increase in capacity fees of \$42,875, interest income of \$75,837, administrative income of \$11,659 and gain from sale of equipment of \$56,596, offset by a decrease in lake revenue of \$10,374 and miscellaneous income of \$91,356.

The intercompany reimbursement from Spartanburg Sanitary Sewer District was comprised of the following types of intercompany services: billing and collection, administrative and financial, engineering, fleet maintenance, field maintenance, and facility allocations for maintenance and the lab. The increase in 2018 was primarily due to the transition to monthly billing and increased staff for Customer Service and Field Services.

Operating expenses before depreciation were comprised of the following:



The following table provides a comparison of 2018, 2017 and 2016 operating expenses before depreciation for major expense categories.

#### Comparison of operating expenses before depreciation

Expense Category	Increase / (Decrease)			
	2018	2017	Amount	% of Change
Salaries and wages	\$13,325,304	\$12,518,298	\$807,006	6.4%
Group insurance	2,942,182	2,553,747	388,435	15.2%
System operation and maint.	1,245,874	1,081,272	164,602	15.2%
Treatment and filter supplies	1,908,252	1,068,491	839,761	78.6%
Service connection supplies	271,847	184,154	87,693	47.6%
Other supplies and maintenance	1,512,231	1,453,669	58,562	4.0%
Utilities	1,238,852	1,187,067	51,785	4.4%
Other outside services	2,098,291	2,198,756	(100,465)	-4.6%
Other expenses	1,090,775	1,270,603	(179,828)	-14.2%
Total operating expenses before depreciation	\$25,633,608	\$23,516,057	\$2,117,551	9.0%

	Increase / (Decrease)			
	2017	2016	Amount	% of Change
Salaries and wages	\$12,518,298	\$11,410,290	\$1,108,008	9.7%
Group insurance	2,553,747	2,505,978	47,769	1.9%
System operation and maint.	1,081,272	1,466,679	(385,407)	-26.3%
Treatment and filter supplies	1,068,491	1,535,350	(466,859)	-30.4%
Service connection supplies	184,154	277,440	(93,286)	-33.6%
Other supplies and maintenance	1,453,669	1,548,649	(94,980)	-6.1%
Utilities	1,187,067	1,208,889	(21,822)	-1.8%
Other outside services	2,198,756	2,330,548	(131,792)	-5.7%
Other expenses	1,270,603	1,008,611	261,992	26.0%
Total operating expenses before depreciation	\$23,516,057	\$23,292,434	\$223,623	1.0%

Operating expenses before depreciation increased by \$2,117,551 or 9.0% from fiscal year 2018 to 2017. The increase was \$223,623 or 1.0%, from fiscal year 2017 to fiscal year 2016, primarily due to an increase in Salaries and Wages and Other Expenses offset by a decrease in Treatment and Filter Supplies, System Operation & Maintenance and Other Outside Services. Highlights of the 2018 – 2017 expense comparison are provided below:

- The Salaries and Wages increase resulted primarily from an increase in staff for monthly billing and an increase in retirement contributions.
- The Group Insurance increase resulted from an unfavorable claim experience for fiscal year 2018.
- The System Operations and Maintenance line item includes supply cost and contracted maintenance applicable to the water filtration plants and distribution system. The increase is primarily the result of costs associated with line breaks and repairs during fiscal year 2018.
- The variance in Treatment and Filter Supplies is due to increased demand for water quality requirements.
- The variance in Service Connection Supplies is due to the increase in tap and meter installations for the system during fiscal year 2018.
- The decrease in Other Expenses is primarily associated with the decrease in Workers Compensation and Bad Debt Expense.
- The other line items reflected no significant change in the comparison of fiscal year 2018 to fiscal year 2017.

Nonoperating expenses decreased by \$1,813,971 or 20.6%, due to the decrease in interest and paying agent fees of \$2,160,810 offset by the increase in bond issuance costs of \$346,839.

### Capital Contributions:

The System 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 \$676,992 and were comprised of donated lines of \$412,150 and cash payments of \$264,842. Capital contributions for fiscal year 2017 totaled \$923,529 and were comprised of donated lines of \$816,336 and cash payments of \$107,193. The capital contributions received in cash were comprised of participation fees and miscellaneous project contributions.

### Capital Assets

At June 30, 2018, the System had \$197,378,438 invested in capital assets, as provided in the following schedule:

	<b>Capital Assets at Year-End</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Transmission, Distribution and Treatment Facilities	\$ 180,065,968	\$ 181,686,308	\$ 178,929,248
Other Facilities & Property	5,157,502	5,106,039	3,021,702
Vehicles, Office & Maintenance Equipment	6,581,134	6,673,708	5,436,004
Construction in Progress	5,573,834	3,011,631	4,299,599
Capital Assets - Net of Accumulated Depreciation	<u>\$ 197,378,438</u>	<u>\$ 196,477,686</u>	<u>\$ 191,686,553</u>

Significant changes for Capital Assets during fiscal year 2018 included a net decrease in Transmission, Distribution and Treatment Facilities. The additions of \$412,150 in donated lines, various waterline extensions and rehab of \$1,341,338 and R.B. Simms Continuous Sludge Removal of \$2,911,638; capitalized labor, storage tank rehab and various distribution system improvements were offset by an increase in current year depreciation expense.

Significant changes during fiscal year 2017 included a net increase in Transmission, Distribution, and Treatment Facilities. The additions of \$816,336 in donated lines, various waterline extensions and rehab of \$619,857, Administration Building Improvements of \$2,006,499, and Lake Bowen and Reservoir #1 Oxygenation Systems of \$3,643,142; capitalized labor, storage tank rehab and various distribution system improvements were offset by an increase in current year depreciation expense. In addition, there was a decrease in Construction in Progress due to the completion of several large projects. Vehicles and service and maintenance equipment increased due to the replacement of depreciated large vehicles and maintenance equipment.

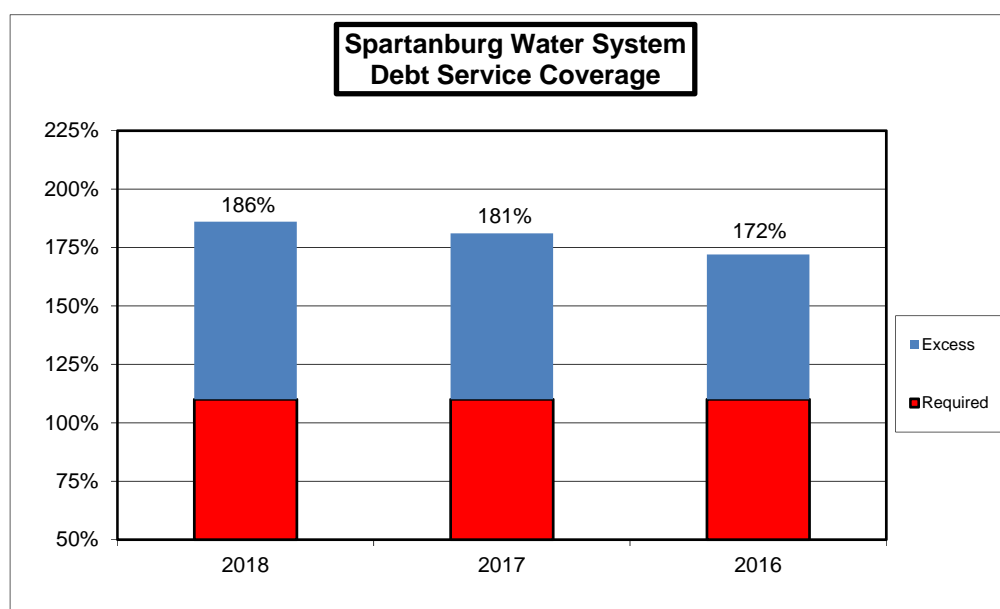
For more information on changes in capital assets, see Note 4 to the financial statements.

## Debt Administration

### Debt Service Coverage

In the System's revenue bond resolution, the System covenants and agrees that it will, at all times, prescribe and maintain and thereafter collect rates and charges for the services and facilities furnished by the System which, together with other income, are reasonably expected to yield annual net earnings in the current fiscal year equal to at least 110% of the annual principal and interest requirements for all revenue bonds outstanding in such fiscal year. The computation of net earnings is presented in the Historical Statements of Revenues, Expenses, Debt Service and Debt Service Coverage, which is provided in the statistical section of this report. The System's historical debt service coverage is summarized by the following table:

<b>Debt Service Coverage</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Net Earnings per Revenue Bond Covenant	\$ 20,651,842	\$ 23,533,592	\$ 20,909,028
Revenue Bond Debt Service	11,118,019	12,997,256	12,151,334
Revenue Bond Debt Service Coverage	1.86	1.81	1.72



## Current Year Transactions

### 2017B Refunding and Improvement Revenue Bonds

The System issued the Series 2017B Refunding and Improvement Revenue Bonds, dated August 24, 2017, in the amount of \$45,930,000, to provide funds for the refunding of the Series 2007B and Series 2009 bonds. The net present value savings on this transaction was as follows: 2007B refunding (\$444,269) and the Series 2009 refunding (\$4,724,542), for a total savings of \$5,168,811 or 13.56%. The new money portion of the Series 2017B Bonds will be used to fund \$15,000,000 of distribution system rehabilitation projects and various improvements to the System's water treatment facilities.

### Outstanding Debt at Year-End

The System had \$163,725,000 in short-term and long-term revenue bond debt outstanding at year-end, as scheduled below:

	Average Yield	Outstanding Debt		
		2018	2017	2016
Long-term Debt				
2007A Water System Refunding Revenue Bond	4.32%	\$ -	\$ -	\$ 65,710,000
2007B Water System Revenue Bond	4.39%	-	4,180,000	4,180,000
2009 Water System Revenue Bond	4.97%	-	33,935,000	33,935,000
2012 Water System Revenue Bond	2.23%	5,205,000	5,700,000	6,180,000
2013 Water System Revenue Bond	4.62%	27,255,000	27,255,000	27,255,000
2015A Water System Refunding Revenue Bond	3.40%	26,085,000	26,085,000	26,085,000
2015B Water System Refunding Revenue Bond	3.40%	5,090,000	5,700,000	6,255,000
2017A Water System Refunding Revenue Bond	1.75%	54,160,000	59,080,000	-
2017B Water System Refunding Revenue Bond	2.90%	45,930,000	-	-
Total Debt Outstanding		\$ 163,725,000	\$ 161,935,000	\$ 169,600,000

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

### Bond Ratings

In connection with the issuance, the Water System received bond ratings of Aa3 and AA from Moody's and Standard and Poor's, respectively. This represents an affirmation of the Moody's rating of Aa3 and an upgrade of the Standard and Poor's rating of AA- to AA.

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

## Financial Planning

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

The System Commission approved a balanced Annual Operating Budget for fiscal year 2019 in the total amount of \$46,389,468, which represents a 4.3% increase over the previous year's budgeted revenues and expenditures. The approved budget included funding of reserves for the Depreciation Fund - \$1,750,000, Capital Fund - \$1,000,000, Meter/Endpoint Fund - \$500,000 and the Distribution System Rehab Fund - \$900,000.

### **Other Significant Matters**

- **Replacement of Aging Infrastructure**  
The System has enhanced efforts to address aging water mains. Various water main replacement projects were completed by the Maintenance Department and outside contractors during fiscal year 2018, with ongoing projects captured in the Construction in Progress.
- **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 System's finances. For questions concerning this report or other requests for financial information, please contact:

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



SPARTANBURG WATER SYSTEM  
STATEMENTS OF NET POSITION  
JUNE 30, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2018	2017
Assets		
Current assets		
Cash	\$ 3,027,686	\$ 16,096,678
Investments	18,572,157	5,301
Accounts receivable - net of allowance for doubtful accounts of \$176,994 and \$215,849 as of 2018 and 2017, respectively	5,583,199	6,973,687
Loans receivable	15,547	22,911
Other receivables	895,852	994,827
Inventories	1,575,233	1,968,466
Total current assets	29,669,674	26,061,870
Noncurrent assets		
Restricted cash	1,921,170	11,314,196
Restricted investments	38,986,256	21,369,911
Capital assets - nondepreciable	6,694,568	4,132,365
Capital assets - net of accumulated depreciation	190,683,870	192,345,321
Total noncurrent assets	238,285,864	229,161,793
Total Assets	267,955,538	255,223,663
Deferred Outflows of Resources		
Deferred loss on refundings	5,733,143	4,050,096
Deferred amounts related to pensions	3,797,289	3,527,111
Deferred amounts related to OPEB	1,253,177	-
Total Deferred Outflows of Resources	10,783,609	7,577,207

SPARTANBURG WATER SYSTEM  
STATEMENTS OF NET POSITION - CONTINUED  
JUNE 30, 2018 AND 2017

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2018	2017
Liabilities		
Current liabilities		
Accounts payable	1,954,911	1,763,866
Payable from restricted assets - customer deposits	1,720,545	1,679,086
Accrued salaries and wages	1,234,375	1,102,998
Accrued employee benefits	362,249	280,435
Accrued interest expense	474,705	460,277
Other payables	492,270	557,752
Sewer and water collections payable to others	1,799,177	1,884,047
Long-term debt - current portion	6,135,000	6,025,000
Total current liabilities	14,173,232	13,753,461
Noncurrent liabilities		
Net pension liability	23,366,599	22,142,905
Net other post-employment benefit obligation	-	34,284
Net other post-employment benefit liability	11,264,695	-
Long-term debt - net of current portion	166,800,781	159,523,614
Total noncurrent liabilities	201,432,075	181,700,803
Total Liabilities	215,605,307	195,454,264
Deferred Inflows of Resources		
Deferred amounts related to pensions	126,110	-
Net Position		
Net investment in capital assets	77,905,385	76,099,078
Unrestricted	(14,897,655)	(8,752,472)
Total Net Position	\$ 63,007,730	\$ 67,346,606

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

SPARTANBURG WATER SYSTEM  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating Revenues		
Water sales	\$ 38,622,915	\$ 40,183,098
Private fire service rates	356,078	324,644
Cut-off service charges	360,354	311,134
Tap and meter sales	715,805	603,515
New account fees	191,040	224,503
Ice machine sales	405,520	456,662
Miscellaneous	203,639	117,913
	<u>40,855,351</u>	<u>42,221,469</u>
Operating Expenses		
Operating expenses before depreciation	25,633,608	23,516,057
Depreciation	8,204,100	7,872,092
	<u>33,837,708</u>	<u>31,388,149</u>
Operating Income	<u>7,017,643</u>	<u>10,833,320</u>
Nonoperating Revenues (Expenses)		
Capacity fees	294,775	273,765
Fishing and boating permits	410,378	363,134
Interest income	530,763	82,325
Miscellaneous	161,804	124,824
Intercompany services	3,189,295	3,011,119
Administrative income	285,805	241,176
Payments to other governmental units	(1,000,000)	(1,000,000)
Gain on sale of capital assets	108,241	137,449
Bond issuance costs	(467,731)	(120,892)
Interest and paying agent fees	(5,516,898)	(7,677,708)
	<u>(2,003,568)</u>	<u>(4,564,808)</u>
Increase in Net Position		
Before Capital Contributions	5,014,075	6,268,512
Capital Contributions	<u>676,992</u>	<u>923,529</u>
Increase in Net Position	5,691,067	7,192,041
Net Position - Beginning of Year - Restated (2018)	<u>57,316,663</u>	<u>60,154,565</u>
Net Position - End of Year	<u>\$ 63,007,730</u>	<u>\$ 67,346,606</u>

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

SPARTANBURG WATER SYSTEM  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows Provided (Used) by Operating Activities		
Cash received from customers	\$ 43,166,754	\$ 43,063,119
Cash paid to suppliers for goods and services	(8,701,513)	(8,884,100)
Cash paid to or for the benefit of employees	(15,158,763)	(14,412,331)
	<u>19,306,478</u>	<u>19,766,688</u>
Cash Flows Provided (Used) by Noncapital Financing Activities		
Intercompany services	3,189,295	3,011,119
Payments to other governmental units	(1,000,000)	(1,000,000)
	<u>2,189,295</u>	<u>2,011,119</u>
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Capital contributions	264,842	107,193
Capacity fees	294,775	273,765
Acquisition and construction of capital assets	(8,693,378)	(11,848,370)
Proceeds from sale of capital assets	108,916	138,931
Proceeds from issuance of revenue bonds	15,590,934	129,510
Payments to current and advanced refundings escrow	(4,269,003)	(2,569,510)
Bond issuance costs	(125,960)	(120,892)
Repayments of bonds payable - revenue bonds	(6,025,000)	(5,225,000)
Interest and paying agent fees	(5,451,479)	(7,512,089)
	<u>(8,305,353)</u>	<u>(26,626,462)</u>
Cash Flows Provided (Used) by Investing Activities		
Interest income	<u>530,763</u>	<u>82,325</u>
Net Decrease in Cash and Cash Equivalents	13,721,183	(4,766,330)
Cash and Cash Equivalents - Beginning of Year	<u>48,786,086</u>	<u>53,552,416</u>
Cash and Cash Equivalents - End of Year	<u>\$ 62,507,269</u>	<u>\$ 48,786,086</u>

SPARTANBURG WATER SYSTEM  
STATEMENTS OF CASH FLOWS - CONTINUED  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating income	\$ 7,017,643	\$ 10,833,320
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	8,204,100	7,872,092
Pension expense	2,423,966	2,021,352
OPEB expense	1,006,475	-
Nonoperating income	857,987	729,134
(Increase) decrease in assets:		
Accounts receivable	1,390,488	124,176
Loans receivable	7,364	7,694
Other receivables	98,975	(12,430)
Inventories	393,233	(341,879)
Deferred outflows related to pensions	(1,344,340)	(1,210,662)
Deferred outflows related to OPEB	(1,059,184)	-
Increase (decrease) in liabilities:		
Accounts payable	191,045	(94,432)
Customer deposits	41,459	178,910
Accrued salaries and wages	131,377	33,065
Accrued employee benefits	81,814	(20,472)
Accrued interest expense	14,428	(159,211)
Other payables	(65,482)	(37,791)
Sewer and water collections payable to others	(84,870)	(185,835)
Net other post-employment benefits obligation	-	29,657
Net Cash Provided (Used) by Operating Activities	<u>\$ 19,306,478</u>	<u>\$ 19,766,688</u>
Noncash Investing, Capital and Financing Activities		
Contribution of capital assets	\$ 412,150	\$ 816,336
Amortization included in interest expense	\$ 65,419	\$ 165,619
Disposal of assets	\$ 675	\$ 1,481
Current refunding		
Proceeds from revenue bond issue	\$ 31,510,000	\$ 58,950,490
Defeased revenue bonds	\$ (38,115,000)	\$ (61,520,000)
Deferred loss on refunding	\$ (2,110,109)	\$ 1,278,277
Bond premium	\$ 4,787,877	\$ (1,278,277)
Bond issuance costs	\$ (341,771)	\$ -

SPARTANBURG WATER SYSTEM  
STATEMENTS OF CASH FLOWS - CONTINUED  
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	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	\$ 3,027,686	\$ 16,096,678
Investments	18,572,157	5,301
	21,599,843	16,101,979
Noncurrent assets		
Restricted cash	1,921,170	11,314,196
Restricted investments	38,986,256	21,369,911
	40,907,426	32,684,107
	\$ 62,507,269	\$ 48,786,086
Cash flow classifications		
Petty cash	\$ 4,217	\$ 4,917
Cash on hand	322,557	435,653
Cash deposits	4,622,082	26,970,304
Investments - cash equivalents	57,558,413	21,375,212
Total cash and cash equivalents	\$ 62,507,269	\$ 48,786,086

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

SPARTANBURG WATER SYSTEM  
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 Water System (the System) is presented to assist in understanding the financial statements. The financial statements and notes are representations of the System's management, which are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (US GAAP) and have been consistently applied in the preparation of the financial statements.

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

**Reporting Entity**

The System provides public water utility services to the residents and businesses of Spartanburg, South Carolina and surrounding communities. The System is a special purpose district created in the year 1908 by the General Assembly of the State of South Carolina. The System is a primary government with no component units. The System is governed by three elected commissioners of the Commission of Public Works of the City of Spartanburg.

**Basis of Accounting**

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

**Use of Restricted Resources**

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

**Revenues and Expenses**

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

**Cash and Cash Equivalents**

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

**Investments**

Investments are stated at fair value.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

**Inventories**

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

**Capital Assets**

Capital assets are stated at cost. Donated capital assets are recorded at estimated 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:

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

**Compensated Absences**

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

Employees also accumulate sick leave based upon months of service. Sick leave does not vest and is lost upon termination of employment and thus is not accrued. A portion of accumulated sick leave, not to exceed forty-five days, may be redeemed for cash upon retirement. This redemption liability is not reasonably estimable in aggregate, nor accrued for financial statement purposes.

**Long-Term Liabilities**

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

**Deferred Outflows and Inflows of Resources**

In the Statements of Net Position, in addition to assets and liabilities, separate sections for deferred outflows and deferred inflows of resources are reported. Deferred outflows of resources represent a consumption of net position that applies to future periods and will not be recognized as an expense until then. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as revenue until that time. The System's deferred outflows of resources are deferred amounts arising from debt refunding and amounts related to the System's defined benefit pension and OPEB plans. The System's only deferred inflows of resources are amounts related to the System's defined benefit pension plan.



SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

**Capital Contributions**

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

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

*Custodial credit risk - deposits* - the System does not have a formal deposit policy for custodial credit risk which is the risk that in the event of a bank failure, the deposits may not be returned to the System. As of June 30, 2018 and 2017, the System was not exposed to custodial credit risk.

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

The System has not adopted a formal deposit and 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.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 2 - CASH DEPOSITS AND INVESTMENTS - CONTINUED

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

The System 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	\$ 49,247,429	\$ 10,066,281	Not rated	N/A
Dreyfus Government Prime	<90 days	8,310,984	11,308,931	Aaa-mf	N/A
		<u>\$ 57,558,413</u>	<u>\$ 21,375,212</u>		

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

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

	2018	2017
Restricted Assets for Customer Deposits		
Cash	<u>\$ 1,720,545</u>	<u>\$ 1,679,086</u>
Restricted assets for the Acquisition and Construction of Capital assets		
Cash	200,625	9,635,110
Investments	<u>30,675,272</u>	<u>10,060,980</u>
	<u>30,875,897</u>	<u>19,696,090</u>
Restricted Assets for Debt Service Reserve and Debt Service Funds		
Investments	<u>8,310,984</u>	<u>11,308,931</u>
	<u>\$ 40,907,426</u>	<u>\$ 32,684,107</u>

NOTE 3 - LOANS RECEIVABLE

The System provides a program whereby it finances participation and capacity fees for new customers. The loan terms are bi-monthly payments of one to ten years at interest rates of nine to twelve percent. These loans are secured by a recorded lien against the homeowner's real property. The balance of loans receivable from customers was \$15,547 and \$22,911 at June 30, 2018 and 2017, respectively.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 4 - 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>				
Land	\$ 1,120,734	\$ -	\$ -	\$ 1,120,734
Construction in progress	3,011,631	7,407,202	4,844,999	5,573,834
<b>Total nondepreciable</b>	4,132,365	7,407,202	4,844,999	6,694,568
<b>Depreciable</b>				
Motor vehicles	4,315,398	762,680	197,582	4,880,496
Service and maintenance equipment	11,314,341	637,651	58,750	11,893,242
Office furniture and fixtures	4,875,323	250,936	92,411	5,033,848
Computer software	1,800,194	179,057	-	1,979,251
Office buildings	5,772,416	298,139	-	6,070,555
Transmission, distribution and treatment facilities	268,932,819	3,945,142	-	272,877,961
Joint maintenance facility	1,599,550	57,569	-	1,657,119
Joint lab building	882,354	-	-	882,354
Donated system facilities	14,445,072	412,150	-	14,857,222
<b>Total depreciable</b>	313,937,467	6,543,324	348,743	320,132,048
Total Capital Assets	318,069,832	13,950,526	5,193,742	326,826,616
Accumulated Depreciation				
Motor vehicles	2,950,590	634,963	197,582	3,387,971
Service maintenance and equipment	8,066,321	894,621	58,750	8,902,192
Office furniture and fixtures	4,162,720	231,748	91,736	4,302,732
Computer software	451,917	160,890	-	612,807
Office buildings	2,826,428	218,704	-	3,045,132
Transmission, distribution and treatment facilities	97,055,602	5,624,198	-	102,679,800
Joint maintenance facility	1,110,774	59,715	-	1,170,489
Joint lab building	331,813	25,827	-	357,640
Donated system facilities	4,635,981	353,434	-	4,989,415
	121,592,146	8,204,100	348,068	129,448,178
Capital Assets - Net of Accumulated Depreciation	\$ 196,477,686			\$ 197,378,438

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 4 - CAPITAL ASSETS - CONTINUED

	2017			
	Balance June 30, 2016	Additions	Removals/ Disposals	Balance June 30, 2017
Capital Assets				
<b>Nondepreciable</b>				
Land	\$ 1,120,734	\$ -	\$ -	\$ 1,120,734
Construction in progress	4,299,599	9,504,348	10,792,316	3,011,631
<b>Total nondepreciable</b>	<u>5,420,333</u>	<u>9,504,348</u>	<u>10,792,316</u>	<u>4,132,365</u>
<b>Depreciable</b>				
Motor vehicles	3,955,971	825,872	466,445	4,315,398
Service and maintenance equipment	10,968,038	552,100	205,797	11,314,341
Office furniture and fixtures	4,679,419	237,984	42,080	4,875,323
Computer software	536,436	1,263,758	-	1,800,194
Office buildings	3,452,241	2,320,175	-	5,772,416
Transmission, distribution and treatment facilities	261,031,031	7,901,788	-	268,932,819
Joint maintenance facility	1,564,887	34,663	-	1,599,550
Joint lab building	882,354	-	-	882,354
Donated system facilities	13,628,736	816,336	-	14,445,072
<b>Total depreciable</b>	<u>300,699,113</u>	<u>13,952,676</u>	<u>714,322</u>	<u>313,937,467</u>
Total Capital Assets	<u>306,119,446</u>	<u>23,457,024</u>	<u>11,506,638</u>	<u>318,069,832</u>
Accumulated Depreciation				
Motor vehicles	2,957,942	459,093	466,445	2,950,590
Service maintenance and equipment	7,430,985	841,133	205,797	8,066,321
Office furniture and fixtures	3,970,028	233,289	40,597	4,162,720
Computer software	344,905	107,012	-	451,917
Office buildings	2,641,035	185,393	-	2,826,428
Transmission, distribution and treatment facilities	91,442,066	5,613,536	-	97,055,602
Joint maintenance facility	1,052,076	58,698	-	1,110,774
Joint lab building	305,403	26,410	-	331,813
Donated system facilities	4,288,453	347,528	-	4,635,981
	<u>114,432,893</u>	<u>7,872,092</u>	<u>712,839</u>	<u>121,592,146</u>
Capital Assets - Net of Accumulated Depreciation	<u>\$ 191,686,553</u>			<u>\$ 196,477,686</u>

Depreciation expense for the years ended June 30, 2018 and 2017 was \$8,204,100 and \$7,872,092, respectively.

Interest costs incurred during the years ended June 30, 2018 and 2017 were \$5,543,606 and \$7,613,046, respectively. Interest capitalized for the years ended June 30, 2018 and 2017 was \$104,098 and \$104,155, respectively.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 5 - LONG-TERM DEBT

2018						
	Balance June 30, 2017	Additions	Reductions	Refunded	Balance June 30, 2018	Due Within One Year
Bonds and Other Noncurrent Liabilities Payable						
Revenue bonds	\$ 161,935,000	\$ 45,930,000	\$ (6,025,000)	\$ (38,115,000)	\$ 163,725,000	\$ 6,135,000
Bond premium	3,613,614	6,364,450	(361,643)	(405,640)	9,210,781	-
	<u>\$ 165,548,614</u>	<u>\$ 52,294,450</u>	<u>\$ (6,386,643)</u>	<u>\$ (38,520,640)</u>	<u>\$ 172,935,781</u>	<u>\$ 6,135,000</u>
2017						
	Balance June 30, 2016	Additions	Reductions	Refunded	Balance June 30, 2017	Due Within One Year
Bonds and Other Noncurrent Liabilities Payable						
Revenue bonds	\$ 169,600,000	\$ 59,080,000	\$ (5,225,000)	\$ (61,520,000)	\$ 161,935,000	\$ 6,025,000
Bond premium	5,180,524	-	(288,633)	(1,278,277)	3,613,614	-
	<u>\$ 174,780,524</u>	<u>\$ 59,080,000</u>	<u>\$ (5,513,633)</u>	<u>\$ (62,798,277)</u>	<u>\$ 165,548,614</u>	<u>\$ 6,025,000</u>

Revenue Bonds

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

	2018	2017
\$31,200,000 Water System Revenue Bonds of the City of Spartanburg, South Carolina, Series 2007B, dated March 17, 2007. Annual maturities beginning 2029 of \$2,830,000 to \$4,180,000 maturing in 2037 with semi-annual interest of 4.30% to 5.00%. Bonds issued to fund improvements to the System.	\$ -	\$ 4,180,000
\$33,935,000 City of Spartanburg, South Carolina Water System Revenue Bonds, Series 2009, dated December 15, 2009. Annual maturities beginning in 2029 of \$1,765,000 to \$7,435,000 maturing in 2039 with semi-annual interest of 4.625% to 5.00%. Bonds issued to fund improvements to the System.	-	33,935,000
\$8,000,000 City of Spartanburg, South Carolina Water System Junior Lien Revenue Bonds, Series 2012, dated July 13, 2012. Annual maturities beginning in 2013 of \$450,000 to \$650,000 maturing in 2027 with semi-annual interest of 2.23%. Bonds issued to fund improvements to the System.	5,205,000	5,700,000
\$27,255,000 City of Spartanburg, South Carolina Water System Revenue Bonds, Series 2013, dated October 29, 2013. Annual maturities beginning in 2026 of \$380,000 to \$2,265,000 maturing in 2027 with semi-annual interest of 1.81% to 2.50%. Bonds issued to fund improvements to the System.	27,255,000	27,255,000
\$26,085,000 City of Spartanburg, South Carolina Water System Revenue Refunding Bonds, Series 2015A, dated June 23, 2015. Annual maturities beginning in 2028 of \$1,000,000 to \$3,860,000 maturing in 2035 with semi-annual interest of 1.22% to 5.00%. Bonds issued to refund the Series 2007B bonds.	26,085,000	26,085,000

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 5 - LONG-TERM DEBT - CONTINUED

Revenue Bonds - Continued

	<u>2018</u>	<u>2017</u>
\$6,255,000 City of Spartanburg, South Carolina Water System Revenue Refunding Bonds, Taxable Series 2015B, dated June 23, 2015. Annual maturities beginning in 2016 of \$375,000 to \$740,000 maturing in 2027 with semi-annual interest of 1.22% to 3.68%. Bonds issued to refund the Series 2010 bonds.	5,090,000	5,700,000
\$59,080,000 City of Spartanburg, South Carolina Water System Refunding Revenue Bonds, Series 2017A, dated June 1, 2017. Annual maturities beginning in 2018 of \$4,920,000 to \$5,850,000 maturing in 2028 with semi-annual interest of 1.75%. Bonds issued to refund the Series 2007A bonds.	54,160,000	59,080,000
\$45,930,000 City of Spartanburg, South Carolina Water System Refunding and Improvement Revenue Bonds, Series 2017B, dated August 24, 2017. Annual maturities beginning in 2022 of \$25,000 to \$7,425,000 maturing in 2047 with semi-annual interest of 3.25% to 5.00%. Bonds issued to refund the Series 2007B and 2009 bonds, fund improvements to the distribution and treatment facilities, and fund capitalized interest.	<u>45,930,000</u>	<u>-</u>
	163,725,000	161,935,000
Less: current portion	<u>(6,135,000)</u>	<u>(6,025,000)</u>
Total long-term revenue bonds payable	<u>\$ 157,590,000</u>	<u>\$ 155,910,000</u>

Debt service requirements to maturity including interest on all outstanding bonds as of June 30, 2018 are as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ 6,135,000	\$ 5,855,692	\$ 11,990,692
2020	6,250,000	5,743,127	11,993,127
2021	6,375,000	5,625,024	12,000,024
2022	6,525,000	5,502,452	12,027,452
2023	6,970,000	5,374,645	12,344,645
2024-2028	36,735,000	24,664,837	61,399,837
2029-2033	31,580,000	19,025,963	50,605,963
2034-2038	39,120,000	10,926,863	50,046,863
2039-2043	20,705,000	2,762,313	23,467,313
2044-2047	<u>3,330,000</u>	<u>285,694</u>	<u>3,615,694</u>
	<u>\$ 163,725,000</u>	<u>\$ 85,766,610</u>	<u>\$ 249,491,610</u>

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

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 6 - DEFEASANCE OF DEBT AND ADVANCED REFUNDINGS

On August 24, 2017, the System issued \$45,930,000 of Water System Refunding and Improvement Revenue Bonds, Series 2017B. These proceeds were used to currently refund \$4,180,000 of outstanding Water System Revenue Bonds, Series 2007B and advance refund \$33,935,000 of outstanding Water System Revenue Bonds, Series 2009. The net proceeds of \$36,361,746 along with System funds of \$4,310,443 were used to currently refund and advance refund and defease the outstanding 2007B and 2009 debt, respectively.

The current and advanced refunding resulted in a gross cash flow gain of \$13,136,683 and an economic cash flow gain of \$5,168,811.

In current and prior years, advance refundings resulted in book losses that are being amortized over the original remaining life of the old bonds that were defeased or the life of the new debt, whichever is less. The unamortized losses at June 30, 2018 and 2017 are shown on the Statements of Net Position as deferred loss on refundings under deferred outflows of resources. Amortization has been included in interest expense and was \$427,062 and \$454,253 for the years ended June 30, 2018 and 2017, respectively.

The proceeds from current and previous bonds issued that defeased certain revenue bonds in current and prior years were placed in an irrevocable trust to provide for all future debt payments on the old bonds. Accordingly, the trust accounts' assets and the liability for the defeased bonds are not included in the System's financial statements. At June 30, 2018 and 2017, \$33,935,000 and \$0 of bonds outstanding are considered defeased from current and prior years.

NOTE 7 - CAPITAL CONTRIBUTIONS

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

	2018	2017
Donated assets	\$ 412,150	\$ 816,336
Private industry and developers	-	14,998
Participation fees	264,842	92,195
	<u>\$ 676,992</u>	<u>\$ 923,529</u>

NOTE 8 - PENSION PLAN

**Plan Description** - The System, as the employer, participates in the South Carolina Retirement System (SCRS) Plan - a cost-sharing multiple-employer defined benefit pension plan, 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.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 8 - PENSION PLAN - CONTINUED

**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.

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 System were \$1,344,341 and \$1,210,662, for the years ended June 30, 2018 and 2017, respectively.



SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 8 - PENSION PLAN - CONTINUED

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At June 30, 2018, the System reported a net pension liability of \$23,366,599 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 System's proportionate shares of the collective net pension liability and pension expense were calculated on the basis of the System'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 System's proportion of the collective net pension liability at June 30, 2018 and 2017 was .103798% and .1003666%, respectively, an increase of .00343% since June 30, 2016, the prior measurement date.

For the years ended June 30, 2018 and 2017, the System recognized pension expense of \$2,423,966 and \$2,021,352. At June 30, 2018 and 2017, the System reported deferred outflows of resources and deferred inflows of resources related to the pension as follows:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 432,798	\$ 126,110
Changes in assumptions	1,367,864	-
Net difference between projected and actual earnings on pension plan investments	652,286	-
System contributions subsequent to the measurement date	1,344,341	-
Total	<u>\$ 3,797,289</u>	<u>\$ 126,110</u>
	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,301,456	\$ -
Net difference between projected and actual earnings on pension plan investments	1,014,993	-
System contributions subsequent to the measurement date	1,210,662	-
Total	<u>\$ 3,527,111</u>	<u>\$ -</u>

\$1,344,341 reported as deferred outflows of resources related to pensions in 2018, resulted from System contributions subsequent to the measurement date and will be recognized as a reduction of the net collective 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:

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 8 - PENSION PLAN - CONTINUED

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

Year Ended June 30	
2019	\$ 694,538
2020	1,125,272
2021	687,146
2022	(180,118)
	<u>\$ 2,326,838</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)

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.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 8 - PENSION PLAN - CONTINUED

**Actuarial Assumptions - Continued**

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	45%	3.24%
Real Assets	8%	0.41%
Opportunistic	17%	0.69%
Diversified Credit	18%	0.80%
Conservative Fixed Income	12%	0.17%
Total Expected Real Return	100%	5.31%
Inflation for Actuarial Purposes		2.25%
Total Expected Nominal Return		7.56%

**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.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** – The following presents the System's proportionate share of the collective net pension liability calculated using the discount rate of 7.25%, as well as what the System'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%)
System's proportionate share of the collective net pension liability	\$ 30,116,336	\$ 23,366,599	\$ 19,271,095

**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 9 - POST-RETIREMENT HEALTH CARE BENEFITS

The System 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 16 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.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

**Plan Description**

The System, 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 System 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 System, upon majority vote of the three 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.

**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	53
Active plan members	199
Total plan members	<u>252</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 System paid \$1,193,816 and \$979,537 in pay-as-you-go and SCORBET contributions for the years ended June 30, 2018 and 2017.

**Net OPEB Liability**

The System's net OPEB liability of \$11,264,695 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:

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

**Net OPEB Liability - Continued**

*Actuarial assumptions and other inputs - continued*

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.

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>

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

**Net OPEB Liability - Continued**

*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 System 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	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(c)
Balance as of December 31, 2016	\$ 14,855,179	\$ 4,185,737	\$ 10,669,442
Changes for the Year			
Service cost	525,937	-	525,937
Interest	693,898	-	693,898
Difference between expected and actual experience	142,956	-	142,956
Contributions - employer	-	669,407	(669,407)
Net investment income	-	117,441	(117,441)
Benefit payments	(499,407)	(499,407)	-
Plan administrative expenses	-	(19,310)	19,310
Net Changes	863,384	268,131	595,253
Balance as of December 31, 2017	\$ 15,718,563	\$ 4,453,868	\$ 11,264,695

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 System, as well as what the System's net OPEB liability would be if it were calculated using a discount rate 1.0% lower or 1.0% higher than the current discount rate:

	Discount Rate Sensitivity		
	1% Decrease 3.75%	Discount Rate 4.75%	1% Increase 5.75%
Net OPEB Liability	\$ 14,127,503	\$ 11,264,695	\$ 8,988,852

*Sensitivity of the net OPEB liability to changes in the health care cost trend rates* - the following presents the net OPEB liability of the System, as well as what the System'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:

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

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

*Sensitivity of the net OPEB liability to changes in the health care cost trend rates - continued -*

Health Care Cost Trend Rate Sensitivity			
	1%		1%
	Decrease	Current	Increase
Net OPEB Liability	\$ 8,605,457	\$ 11,264,695	\$ 14,731,514

*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 System recognized OPEB expense of \$1,006,475. At June 30, 2018, the System 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	\$ 126,058	\$ -
Net difference between projected and actual earnings on plan investments	67,935	-
District contributions subsequent to the measurement date	1,059,184	-
	<u>\$ 1,253,177</u>	<u>\$ -</u>

\$1,059,184 reported as deferred outflows of resources related to OPEB in 2018, resulted from System 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:

Meaurement Period Ended December 31:	
2018	\$ 33,882
2019	33,882
2020	33,882
2021	33,881
2022	16,898
Thereafter	41,568
	<u>\$ 193,993</u>

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

**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 System's OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a closed period of 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

<b>Net OPEB Obligation (Asset)</b>	
	2017
Annual required contribution (ARC)	\$ 1,009,225
Interest on net OPEB obligation	231
Adjustment to ARC	(262)
Annual OPEB cost	1,009,194
Contributions made	(979,537)
Increase in net OPEB obligation (asset)	29,657
Net OPEB obligation (asset) - beginning of year	4,627
Net OPEB obligation (asset) - end of year	<u>\$ 34,284</u>

The System's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation (asset) for the fiscal years ended June 30, 2017, 2016, 2015 are as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>% of OPEB Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2017	\$ 1,009,194	97.06%	\$ 34,284
June 30, 2016	970,317	103.01%	4,627
June 30, 2015	976,010	100.34%	33,826

*Funded Status and Funding Progress*

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

Actuarial accrued liability (AAL)	\$14,855,178
Actuarial value of plan assets	4,476,107
Unfunded actuarial accrued liability (UAAL)	<u>\$10,379,071</u>
Funded ratio (actuarial value of assets/AAL)	30.13%
Covered payroll (annual payroll of active employees covered by the plan)	9,953,096
UAAL as a percentage of covered payroll	104.28%

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.



SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

*Funded Status and Funding Progress - Continued*

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

*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:

Actuarial cost method	Entry Age Normal
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

NOTE 10 - DEFERRED COMPENSATION PLANS

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

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

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 11 - RISK MANAGEMENT

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

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

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

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

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

The System provides employee health care under a self-funded insurance program. Under this program, specific stop loss coverage for each claim in excess of \$95,000 and aggregate stop loss coverage, including Spartanburg Sanitary Sewer District, for claims in excess of \$3,939,992 is provided by a commercial insurance company. 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:

	2018	2017
Beginning of the year liability	\$ 123,757	\$ 154,456
Claims	2,309,044	1,954,888
Claims payments	<u>(2,252,990)</u>	<u>(1,985,587)</u>
End of the year liability	<u>\$ 179,811</u>	<u>\$ 123,757</u>

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

NOTE 12 - PAYMENTS TO OTHER GOVERNMENTAL UNITS

On June 11, 1991, the System adopted a resolution to transfer a percentage of actual gross water revenue to the City of Spartanburg for services and return on investment beginning July 1, 1991. A new transfer agreement was adopted on June 10, 2013, providing that the System pay a flat fee of \$1,200,000 in 2014; \$1,100,000 in 2015; and \$1,000,000 each year from 2016 through 2018. Transfer amounts will henceforward increase for the years 2019 through 2028 by the Consumer Price Index of the preceding year. As part of the amended agreement, the System paid the City \$1,000,000 for the years ended June 30, 2018 and 2017, as reported in the Statements of Revenues, Expenses and Changes in Net Position.

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

NOTE 13 - RELATED PARTY TRANSACTIONS

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

The fees 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 fee	166,018	200,207
Fleet services fee	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) the Spartanburg Sanitary Sewer District at June 30, 2018 and 2017 and included in sewer and water collections payable to others and other receivables on the Statements of Net Position:

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

The System with the Spartanburg Sanitary Sewer District jointly owns an office building on North Liberty Street in downtown Spartanburg, South Carolina. The facility provides offices for the engineering and other support service departments that serve both organizations. The System owns an undivided interest of the office building. At June 30, 2018 and 2017, the System's share is included in capital assets with a cost of \$572,381 and \$527,474 and accumulated depreciation of \$440,408 and \$423,644, respectively.

The System also jointly owns with the Spartanburg Sanitary Sewer District approximately 42 acres on Highway 295 By-Pass in Spartanburg County for future additional space requirements and facilities to accommodate a maintenance shop and personnel involved in maintenance activities. At June 30, 2018 and 2017, the System's share is included in capital assets with a cost of \$1,657,119 and \$1,599,549 and accumulated depreciation of \$1,170,489 and \$1,110,774, respectively.

The System additionally with the Spartanburg Sanitary Sewer District jointly owns a laboratory building on Highway 295 By-pass in Spartanburg County. The facility provides office and laboratories for the industrial wastewater, backflow prevention and water quality services. At June 30, 2018 and 2017, the System's share is included in capital assets with a cost of \$882,354 and accumulated depreciation of \$357,640 and \$331,813, respectively.

NOTE 14 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES AND COMMITMENTS

Sick Pay

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

SPARTANBURG WATER SYSTEM  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
JUNE 30, 2018 AND 2017

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

Unemployment Compensation

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

Underground Storage Tanks

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

Construction Commitments

Outstanding commitments on construction contracts totaled \$1,554,863 and \$3,957,171 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 System does not believe an estimate of potential liability, if any, is required in the accompanying financial statements.

NOTE 15 - RECLASSIFICATIONS

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

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT

The System 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 System to record beginning net OPEB liability and contributions made subsequent to the measurement date as deferred outflows of resources and remove the net OPEB liability as required by GASB Statement 45. Beginning net position was restated as follows:

	2017
Net Position - Beginning of Year	\$ 67,346,606
Removal of the Net OPEB Liability (GASB 45)	34,284
Implementation of GASB Statement 75 - Net OPEB Liability	(10,669,442)
Implementation of GASB Statement 75 - Deferred Outflows Related to OPEB	605,215
Net Position - Beginning of Year - Restated	<u>\$ 57,316,663</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

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

	2018	2017	2016	2015
System's Proportion of the Collective Net Pension Liability	0.103798%	0.100366%	0.100390%	0.102614%
System's Proportionate Share of the Collective Net Pension Liability	\$ 23,366,599	\$ 22,142,905	\$ 19,039,448	\$ 17,666,729
System's Covered Payroll	\$ 10,472,856	\$ 10,038,663	\$ 9,412,769	\$ 9,316,040
System's Proportionate Share of the Collective Net Pension Liability as a Percentage of its Covered Payroll	223.12%	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 WATER SYSTEM  
SCHEDULE OF THE SYSTEM'S CONTRIBUTIONS  
SOUTH CAROLINA RETIREMENT SYSTEM  
LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Statutorially Required Contributions	\$ 1,344,341	\$ 1,210,662	\$ 1,110,276	\$ 1,011,873
Contributions in Relation to the Statutorially Required Contributions	1,344,341	1,210,662	1,110,276	1,011,873
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
System's Covered Payroll	\$ 10,669,170	\$ 10,472,856	\$ 10,038,663	\$ 9,412,769
Contributions as a Percentage of Covered Payroll	12.60%	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 WATER SYSTEM  
SCHEDULE OF CHANGES IN THE SYSTEM'S TOTAL OPEB LIABILITY AND RELATED RATIOS  
LAST TEN FISCAL YEARS ENDING JUNE 30

	2018
Total OPEB Liability	
Service cost	\$ 525,937
Interest on total OPEB liability	693,898
Difference between expected and actual experience	142,956
Benefit payments	(499,407)
Net Change in Total OPEB Liability	863,384
Total OPEB Liability - Beginning of Year	14,855,179
Total OPEB Liability - End of Year (a)	<u>\$ 15,718,563</u>
Plan Fiduciary Net Position	
Contributions - employer**	\$ 669,407
Net investment income	117,441
Benefit payments	(499,407)
Administrative expenses	(19,310)
Net Change in Plan Fiduciary Net Position	268,131
Plan Fiduciary Net Position - Beginning of Year	4,185,737
Plan Fiduciary Net Position - End of Year (b)	<u>\$ 4,453,868</u>
Net OPEB Liability - Ending (a-b)	<u>\$ 11,264,695</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	28.34%
Covered-Employee Payroll	\$ 9,953,096
Net OPEB Liability as a Percentage of Covered-Employee Payroll	113.18%

**Notes to Schedule:**

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

SPARTANBURG WATER SYSTEM  
SCHEDULE OF THE SYSTEM'S CONTRIBUTIONS  
LAST TEN FISCAL YEARS\*

	2018
Actuarially Determined Employer Contribution (ADEC)	\$ 1,058,723
Contributions in Relation to the ADEC	669,407
Annual Contribution Deficiency	<u>\$ 389,316</u>
Covered-Employee Payroll	\$ 9,953,096
Actual Contributions as a Percentage of Covered-employee Payroll	6.73%

\*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 WATER SYSTEM  
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	\$ 1,108,221	\$ -	\$ 1,193,816	107.72%
2017		1,009,225	979,537	97.06%
2016		970,473	999,516	102.99%
2015		976,116	979,328	100.33%
2014		774,652	765,452	98.81%
2013		747,584	701,388	93.82%
2012		730,400	822,792	112.65%
2011		801,200	759,977	94.85%
2010		975,000	908,989	93.23%
2009		947,000	981,093	103.60%

SPARTANBURG WATER SYSTEM  
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	\$ 4,476,107	\$ 14,855,178	\$ 10,379,071	30.13%	\$ 9,953,096	104.28%
July 1, 2015	3,779,282	12,601,960	8,822,678	29.99%	9,245,649	95.43%
July 1, 2013	2,817,188	11,741,497	8,924,309	23.99%	8,545,134	104.44%

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

# Statistical Section

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

## **Contents**

### **Financial Trends**

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

### **Revenue Capacity**

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

### **Debt Capacity**

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

### **Demographic and Economic Information**

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

### **Operating Information**

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

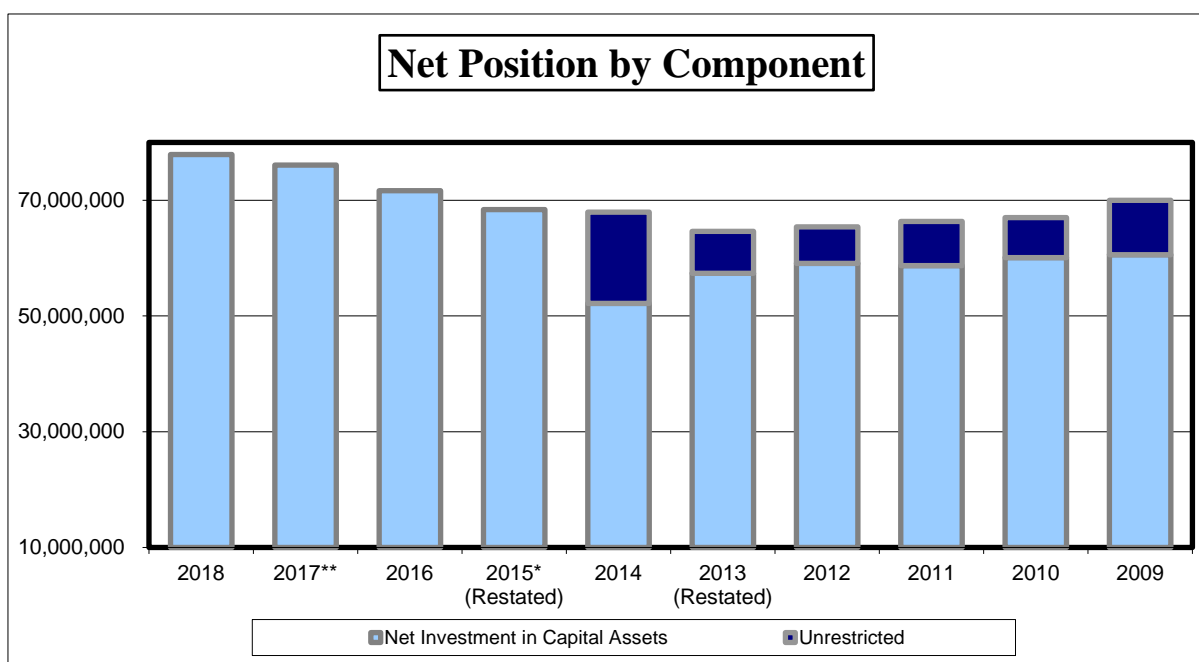
**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

# Financial Trends

## Net Position by Component

FY 2009 to FY 2018

Fiscal Year	Net Investment in Capital Assets	Unrestricted	Total Net Position
2018	\$ 77,905,385	\$ (14,897,655)	\$ 63,007,730
2017**	76,099,078	(18,782,415)	57,316,663
2016	71,655,431	(11,500,866)	60,154,565
2015* (Restated)	68,397,749	(13,985,914)	54,411,835
2014	52,165,078	15,793,683	67,958,761
2013 (Restated)	57,405,217	7,245,318	64,650,535
2012	59,081,079	6,299,720	65,380,799
2011	58,738,554	7,612,986	66,351,540
2010	60,115,947	6,915,159	67,031,106
2009	60,587,129	9,394,356	69,981,485



\*\* The Fiscal Year 2017 unrestricted net position was restated and reduced by \$10,029,943 due to the implementation of GASB 75 - *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

\* 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	FY 2016	FY 2015 (Restated)	FY 2014	FY 2013 (Restated)	FY 2012	FY 2011	FY 2010	FY 2009
Revenues										
Operating Revenues										
Water Sales	\$ 38,622,915	\$ 40,183,098	\$ 37,898,737	\$ 35,785,630	\$ 32,429,507	\$ 30,250,185	\$ 29,881,758	\$ 28,683,192	\$ 25,677,639	\$ 24,901,920
Tap & Meter Sales	715,805	603,515	588,520	471,340	383,845	327,320	347,942	308,252	325,772	402,448
Other Operating Revenues	1,516,631	1,434,856	1,353,879	1,286,424	1,356,221	1,214,146	1,049,149	997,868	847,918	831,544
	40,855,351	42,221,469	39,841,136	37,543,394	34,169,573	31,791,651	31,278,849	29,990,312	26,851,329	26,135,912
Nonoperating Revenues										
Intercompany Services	3,189,295	3,011,119	3,145,181	2,977,887	2,961,169	2,556,100	2,360,476	2,518,702	2,298,700	2,280,855
Other Nonoperating Revenues	1,791,766	1,222,673	1,137,436	1,083,115	1,046,052	917,530	925,005	795,806	942,782	1,071,881
	4,981,061	4,233,792	4,282,617	4,061,002	4,007,221	3,473,630	3,285,481	3,314,508	3,241,482	3,352,736
Total Revenues	45,836,412	46,455,261	44,123,753	41,604,396	38,176,794	35,265,281	34,564,330	33,304,820	30,092,811	29,488,648
Expenses										
Operating Expenses, Excluding Depreciation	25,633,608	23,516,057	23,292,434	21,508,056	20,746,447	20,963,353	20,834,329	19,662,618	19,645,463	20,389,176
Depreciation Expense	8,204,100	7,872,092	7,244,640	6,936,967	6,527,267	6,040,620	5,834,829	5,615,089	5,491,953	5,385,628
Nonoperating Expenses	6,984,629	8,798,600	9,097,263	9,666,764	8,041,001	7,641,109	9,087,122	9,240,098	8,392,026	7,438,758
Total Expenses	40,822,337	40,186,749	39,634,337	38,111,787	35,314,715	34,645,082	35,756,280	34,517,805	33,529,442	33,213,562
Excess (Deficiency), Before Capital Contributions	5,014,075	6,268,512	4,489,416	3,492,609	2,862,079	620,199	(1,191,950)	(1,212,985)	(3,436,631)	(3,724,914)
Capital Contributions	676,992	923,529	1,253,314	378,256	446,147	649,697	221,209	533,419	486,252	1,083,400
Increase (Decrease) in Net Assets	5,691,067	7,192,041	5,742,730	3,870,865	3,308,226	1,269,896	(970,741)	(679,566)	(2,950,379)	(2,641,514)
Net Position, Beginning of Year, Restated (2018)	57,316,663	60,154,565	54,411,835	50,540,970	64,650,535	65,380,799	66,351,540	67,031,106	69,981,485	72,622,999
Change in Accounting Principle	-	-	-	-	-	(2,000,160)	-	-	-	-
Net Position at Beginning of Year, Restated	-	-	-	-	-	63,380,639	-	-	-	-
Net Position, End of Year	\$ 63,007,730	\$ 67,346,606	\$ 60,154,565	\$ 54,411,835	\$ 67,958,761	\$ 64,650,535	\$ 65,380,799	\$ 66,351,540	\$ 67,031,106	\$ 69,981,485

## Revenues By Source

FY 2009 to FY 2018

Fiscal Year	Operating Revenues						
	Water Sales	Private Fire Service Rates	Service Charges	Cut-off	Tap & Meter Sales	New Account Fees	Miscellaneous
2018	\$ 38,622,915	\$ 356,078	\$ 360,354	\$ 360,354	\$ 715,805	\$ 191,040	\$ 609,159
2017	40,183,098	324,644	311,134	311,134	603,515	224,503	574,575
2016	37,898,737	285,324	361,531	361,531	588,520	157,350	549,674
2015 (Restated)	35,785,630	281,788	393,266	393,266	471,340	187,124	424,246
2014	32,429,507	279,379	397,832	397,832	383,845	193,333	485,677
2013	30,250,185	277,574	406,718	406,718	327,320	167,293	362,561
2012	29,881,758	273,261	289,627	289,627	347,942	119,855	366,406
2011	28,683,192	271,226	281,063	281,063	309,252	109,530	336,049
2010	25,677,639	267,027	245,886	245,886	325,772	113,960	221,045
2009	24,901,920	262,885	270,808	270,808	402,448	121,808	176,043

Fiscal Year	Non-Operating Revenues						
	Capacity Fees	Fishing and Boating Permits	Interest Income	Intercompany Services	Administrative Income	Miscellaneous Non-Oper. Revenue	Total Revenues
2018	\$ 294,775	\$ 410,378	\$ 530,763	\$ 3,189,295	\$ 285,805	\$ 270,045	\$ 45,836,412
2017	273,765	363,134	82,325	3,011,119	241,176	262,273	46,455,261
2016	230,890	373,508	6,488	3,145,181	229,517	297,033	44,123,753
2015 (Restated)	189,404	362,734	14,350	2,977,887	245,655	270,972	41,604,396
2014	143,421	322,194	2,946	2,961,169	230,444	347,047	38,176,794
2013	123,013	320,324	30,103	2,556,100	233,053	211,037	35,265,281
2012	137,191	334,992	72,478	2,360,476	202,409	177,935	34,564,330
2011	87,983	333,741	127,275	2,518,702	180,273	66,534	33,304,820
2010	121,640	357,028	183,567	2,298,700	173,522	107,025	30,092,811
2009	150,015	322,541	373,490	2,280,855	173,684	52,151	29,488,648

### Operating Expenses FY 2009 to FY 2018

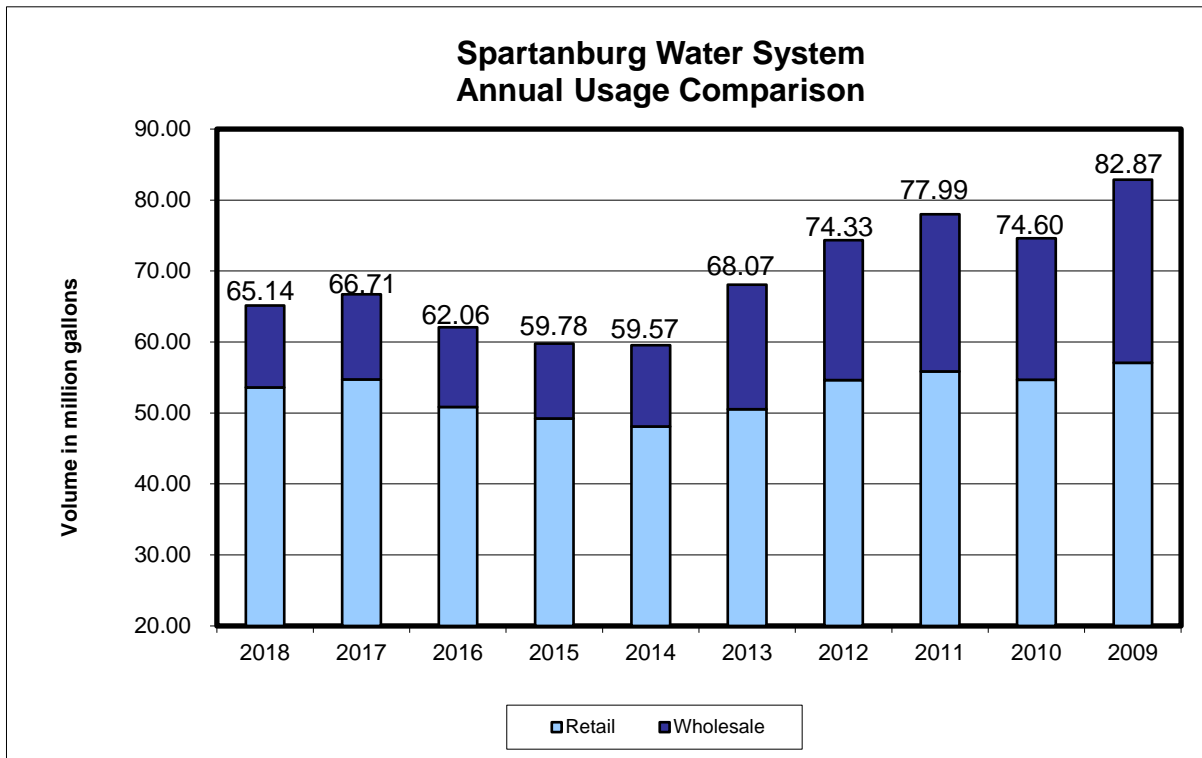
Fiscal Year	Personnel Cost	Supplies and Maintenance	Outside Services	Educational and Training	Company Expenses	Depreciation Expense	Total Expenses
2018	\$ 16,398,870	\$ 4,938,204	\$ 3,337,143	\$ 443,323	\$ 516,068	\$ 8,204,100	\$ 33,837,708
2017	15,265,270	3,787,586	3,385,823	469,201	608,177	7,872,092	31,388,149
2016	14,013,276	4,828,118	3,539,437	413,442	498,161	7,244,640	30,537,074
2015 (Restated)	13,868,014	3,853,896	3,026,101	360,093	399,952	6,936,967	28,445,023
2014	13,192,296	3,804,410	3,030,565	338,007	381,169	6,527,267	27,273,714
2013 (Restated)	12,989,385	3,844,526	3,502,959	369,864	256,619	6,040,620	27,003,973
2012	12,600,577	3,992,350	3,576,263	334,541	330,598	5,834,829	26,669,158
2011	12,064,622	3,680,314	3,120,689	296,297	500,696	5,615,089	25,277,707
2010	12,308,285	3,687,009	2,957,178	243,600	449,391	5,491,953	25,137,416
2009	12,475,731	3,987,037	3,239,831	235,911	450,666	5,385,628	25,774,804



# Revenue Capacity

**Annual Billed Usage****FY 2009 to FY 2018**

Fiscal Year	Volume in Million Gallons		
	Wholesale	Retail	Total
2018	11.55	53.59	65.14
2017	11.98	54.73	66.71
2016	11.20	50.86	62.06
2015	10.58	49.20	59.78
2014	11.47	48.10	59.57
2013	17.54	50.53	68.07
2012	19.70	54.63	74.33
2011	22.13	55.86	77.99
2010	19.93	54.67	74.60
2009	25.81	57.06	82.87



**Historical Volume Rate Information****FY 2009 to FY 2018**

Fiscal Year	Retail		Wholesale
	Inside City	Outside City	
	Block 1	Block 1	
2018	\$ 0.3720	\$ 0.6510	\$ 0.1591
2017	0.3720	0.6510	0.1591
2016	0.3650	0.6390	0.1511
2015	0.3650	0.6390	0.1511
2014	0.3570	0.6248	0.1511
2013	0.3182	0.5570	0.1511
2012	0.2848	0.4984	0.1484
2011	0.2607	0.4561	0.1457
2010	0.2380	0.4164	0.1430
2009	0.2126	0.3721	0.1430

**Number of System Customers****FY 2009 to FY 2018**

Fiscal Year	Retail			Wholesale	Number of Customers
	Residential	Commercial	Industrial		
2018	55,862	6,457	51	5	62,375
2017	54,997	6,366	54	5	61,422
2016	54,357	6,299	55	5	60,716
2015	53,725	6,222	54	5	60,006
2014	53,277	6,168	54	5	59,504
2013	52,908	6,128	54	6	59,096
2012	52,586	6,033	82	6	58,707
2011	52,574	5,657	86	6	58,323
2010	52,535	5,595	90	6	58,226
2009	52,557	5,557	90	6	58,210

## Ten Largest Retail Customers

FY 2009 &amp; FY 2018

Customer	2009				2018			
	Consumption (100g)	Total Annual Revenue	Percent of 2009 Water Sales Revenue	2009 Ranking	Consumption (100g)	Total Annual Revenue	Percent of 2018 Water Sales Revenue	2018 Ranking
Auriga Polymers, Inc. (Invista)	472,923	\$ 968,548	3.89%	1	3,015,410	\$ 1,490,559	3.86%	1
Spartanburg Regional Medical Center	111,510	180,303	0.72%	6	1,121,522	457,938	1.19%	2
Milliken & Company	198,508	535,511	2.15%	2	1,049,900	702,581	1.82%	3
Wofford College	85,025	135,223	0.54%	10	822,622	347,617	0.90%	4
Pet Inc. Dairy Division	86,793	241,571	0.97%	3	722,080	481,651	1.25%	5
Michelin North America	69,493	193,422	0.78%	5	690,226	455,722	1.18%	6
R R Donnelley & Sons	69,869	194,467	0.78%	4	614,684	409,948	1.06%	7
BASF Corporation	-	-	-	-	530,964	352,043	0.91%	8
Spartanburg Sanitary Sewer District	-	-	-	-	387,720	269,190	0.70%	9
Spartanburg Housing Authority	88,973	146,405	0.59%	8	334,398	151,861	0.39%	10
Kohler Company	60,288	167,799	0.67%	7	-	-	-	-
Mary Black Memorial Hospital	52,312	141,916	0.57%	9	-	-	-	-
<b>TOTALS</b>	<b>1,295,694</b>	<b>\$ 2,905,165</b>	<b>11.66%</b>		<b>9,289,526</b>	<b>\$ 5,119,110</b>	<b>13.26%</b>	

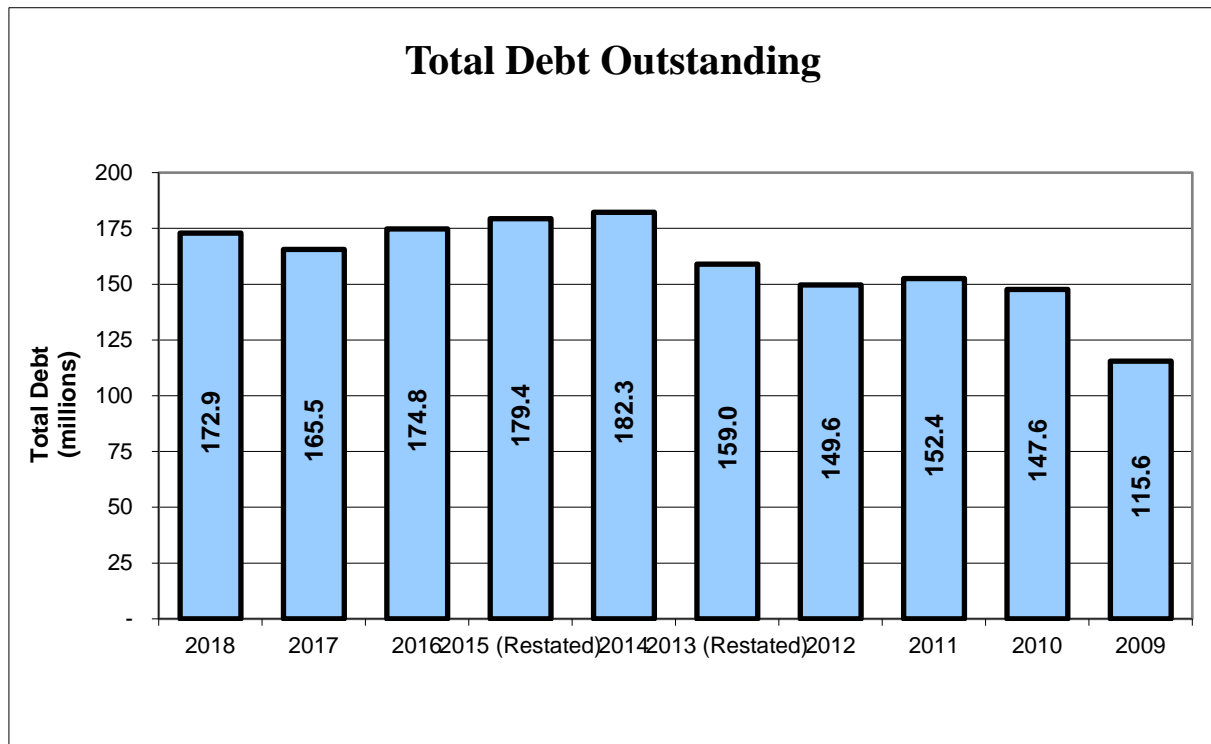
**Wholesale Water Customers in Charge and Volume Order****FY 2018**

<b>CUSTOMER</b>	<b>Billable Consumption (100g)</b>	<b>Percent to Total Consumption</b>	<b>Billable Charges</b>	<b>Base Charges</b>	<b>Total Charges</b>	<b>Percent to Total Water Sales Revenue</b>
Liberty-Chesnee-Fingerville Water District	5,351,400	8.22%	\$ 851,408	\$ 6,271	\$ 857,679	2.22%
Goucher Water Company	2,224,477	3.42%	353,914	1,823	355,737	0.92%
Metropolitan Sub-District "B"	2,198,900	3.38%	349,845	3,094	352,939	0.91%
Meansville-Riley Water Company	1,228,753	1.89%	195,495	1,581	197,076	0.51%
Town of Jonesville	543,225	0.83%	86,427	1,547	87,974	0.23%
	<b>11,546,755</b>	<b>17.74%</b>	<b>\$ 1,837,089</b>	<b>\$ 14,316</b>	<b>\$ 1,851,405</b>	<b>4.79%</b>

# Debt Capacity

**Debt Outstanding****FY 2009 to FY 2018**

Fiscal Year	Revenue Bonds	Note Payable	Total Outstanding Debt	Per Capita*	As Share of Personal Income
2018	\$ 172,935,781	\$ -	\$ 172,935,781	\$ 574	1.71%
2017	165,548,614	-	165,548,614	557	1.59%
2016	174,780,524	-	174,780,524	595	1.70%
2015 (Restated)	179,365,605	-	179,365,605	611	1.75%
2014	182,275,761	-	182,275,761	626	1.79%
2013 (Restated)	158,965,621	12,500	158,978,121	551	1.64%
2012	149,528,318	62,500	149,590,818	523	1.64%
2011	152,334,685	112,500	152,447,185	536	1.70%
2010	147,478,536	162,500	147,641,036	515	1.75%
2009	115,353,621	212,500	115,566,121	412	1.35%



\* Per Capita number is based on the Spartanburg County population. Spartanburg Water System serves 62,370 retail customers inside and outside the City of Spartanburg. Additionally, 5 wholesale customers and served by the System, including 3 in Spartanburg County and 2 in adjoining counties.



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

FY 2009 to FY 2018

	2018	2017	2016	2015 (Restated)	2014	2013(Restated)	2012	2011	2010	2009
<b>Net Income</b>										
Operating revenues	\$ 40,855,351	\$ 42,221,469	\$ 39,841,136	\$ 37,543,394	\$ 34,169,573	\$ 31,791,651	\$ 31,278,849	\$ 29,990,312	\$ 26,851,329	\$ 26,135,912
Operating expenses before depreciation and amortization	(25,633,608)	(23,516,057)	(23,292,434)	(21,508,056)	(20,746,447)	(20,963,353)	(20,834,329)	(19,662,618)	(19,645,463)	(20,389,176)
Operating income before depreciation and amortization	15,221,743	18,705,412	16,548,702	16,035,338	13,423,126	10,828,298	10,444,520	10,327,694	7,205,866	5,746,736
Depreciation	(8,204,100)	(7,872,092)	(7,244,640)	(6,936,967)	(6,527,267)	(6,040,620)	(5,834,829)	(5,615,089)	(5,491,953)	(5,385,628)
Amortization of bond cost	-	-	-	-	(176,290)	-	(110,011)	(148,785)	(154,984)	(81,665)
Operating Income	7,017,643	10,833,320	9,304,062	9,098,371	6,719,569	4,787,678	4,499,680	4,563,820	1,558,929	279,443
Nonoperating Revenues	4,981,061	4,233,792	4,282,617	4,061,002	4,007,220	3,473,630	3,285,481	3,314,508	3,241,482	3,352,736
Nonoperating Expenses	(5,984,629)	(7,798,600)	(8,097,263)	(8,566,764)	(6,664,711)	(6,241,109)	(7,577,111)	(7,691,313)	(6,837,042)	(5,957,093)
Payments to Other Governments	(1,000,000)	(1,000,000)	(1,000,000)	(1,100,000)	(1,200,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)
Capital Contributions	676,992	923,529	1,253,314	378,256	446,147	649,697	221,209	533,419	486,252	1,083,400
Net Income (Loss) Per Financial Statements	\$ 5,691,067	\$ 7,192,041	\$ 5,742,730	\$ 3,870,865	\$ 3,308,225	\$ 1,269,896	\$ (970,741)	\$ (679,566)	\$ (2,950,379)	\$ (2,641,514)
<b>Income Available for Debt Service</b>										
Net Income (Loss) Per Financial Statements	\$ 5,691,067	\$ 7,192,041	\$ 5,742,730	\$ 3,870,865	\$ 3,308,225	\$ 1,269,896	\$ (970,741)	\$ (679,566)	\$ (2,950,379)	\$ (2,641,514)
Less: (Gain)/loss on sale of fixed assets	(108,228)	(137,449)	(80,853)	(76,468)	(53,650)	(65,388)	(25,597)	(5,728)	(61,702)	964
Less: Restricted investment income	(469,651)	(78,853)	(2,853)	(672)	(1,894)	(7,552)	(32,845)	(79,324)	(133,225)	(294,845)
Less: OPEB Adjustment	(52,709)	-	-	-	-	-	-	-	-	-
Less: Capital contributions	(676,992)	(923,529)	(1,253,314)	(378,256)	(446,147)	(649,697)	(221,209)	(533,419)	(486,252)	(1,083,400)
Less: Transfers into rate stabilization fund	1,029,849	1,000,000	200,000	400,000	-	-	600,000	500,000	-	-
Plus: Transfers out of rate stabilization fund	-	-	-	-	290,000	700,000	-	-	220,000	225,000
Plus: Excess transfers in over out	(1,029,849)	(1,000,000)	(200,000)	(400,000)	-	-	(600,000)	(500,000)	-	-
Plus: Depreciation	8,204,100	7,872,092	7,244,640	6,936,967	6,527,267	6,040,620	5,834,829	5,615,089	5,491,953	5,385,628
Plus: Tap and meter purchase	-	-	-	-	-	-	-	-	-	-
Plus: Interest expense	5,516,898	7,677,708	8,097,263	8,178,983	6,638,374	6,182,991	7,557,925	7,670,534	6,819,730	445,304
Plus: Payments to other governments	1,000,000	1,000,000	1,000,000	1,100,000	1,200,000	1,400,000	1,400,000	1,400,000	1,400,000	5,939,174
Plus: Pension Adjustment	1,079,626	810,690	161,415	225,898	-	-	-	-	-	-
Plus: Amortization of Bond Costs	-	-	-	-	-	-	-	-	-	-
Plus: Bond Issuance Costs	467,731	120,892	-	387,781	-	-	110,011	148,785	154,984	81,665
<b>Net Earnings per Revenue Bond Covenant</b>	\$ 20,651,842	\$ 23,533,592	\$ 20,909,028	\$ 20,245,098	\$ 17,462,175	\$ 14,870,870	\$ 13,652,373	\$ 13,536,371	\$ 10,455,109	\$ 9,457,966
<b>Revenue Bond Debt Service</b>	\$ 11,118,019	\$ 12,997,256	\$ 12,151,334	\$ 12,896,810	\$ 10,999,790	\$ 11,578,355	\$ 9,533,853	\$ 8,723,418	\$ 7,915,154	\$ 6,990,341
<b>Revenue Bond Debt Service Coverage</b>	1.86	1.81	1.72	1.57	1.59	1.28	1.43	1.55	1.32	1.35

# 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	31,512	37.7	44,398	11.7%
2009	286,822	8,460,000,000	29,494	37.5	43,036	12.4%
2008	280,738	8,618,609,000	30,506	37.3	43,431	6.9%

Data Sources:

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

**Spartanburg County, South Carolina Major Employers and Changes****FY 2018 & FY 2008**

Company Name	Business/Product	Employees and % of Workforce			
		2018	%	2008	%
BMW Manufacturing Corporation	Automotive manufacturer	10,000	7.1%	5,400	1.4%
Spartanburg County Schools	Public school system	7,093	5.1%	5,185	3.9%
Spartanburg Regional Medical Center	Hospital	3,444	2.5%	4,607	3.4%
State of South Carolina	State government	3,159	2.3%	2,387	1.8%
Spartanburg County	County government, courts, law enforcement	1,553	1.1%	1,379	1.0%
Mary Black Memorial Hospital	Private hospital	1,400	1.0%	1,006	0.8%
Michelin Tire Company	Radial truck tire manufacturer	1,100	0.8%	952	0.7%
Milliken & Company	Research & development on yarns, chemicals	1,037	0.7%	N/A*	0.0%
Inman Mills	Man made woven fabric	678	0.5%	0	0.0%
Kohler Company	Manufacturer of china plumbing fixtures	615	0.4%	909	0.7%
Spartanburg Steel	Fabricate structural metal products	610	0.4%	601	0.4%
Sealed Air (Cryovac)	Mfg. of plastic packaging material	526	0.4%	1,152	0.9%
R. R. Donnelley	Catalog printing & binding	475	0.3%	580	0.4%
Contec Inc.	Wiper manufacturer	300	0.2%	N/A*	0.0%
Tietex Corporation	Mfg. of non-woven material	286	0.2%	625	0.5%

Data Source:

Spartanburg County Economic Development Corporation &amp; individual employers

(N/A\*) Data unavailable

# Operating Information

## Schedule of Capacity Fees and User Charges

FY 2018

**A. Capacity Fees**

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

\* Negotiated by the System on an individual basis.

**B. Volume Charge Schedule**

FY 2018 (per 100g)		FY 2017 (per 100g)		FY 2016 (per 100g)	
Inside City	Outside City	Inside City	Outside City	Inside City	Outside City
\$ 0.3720	\$ 0.6510	\$ 0.3720	\$ 0.6510	\$ 0.3650	\$ 0.6390

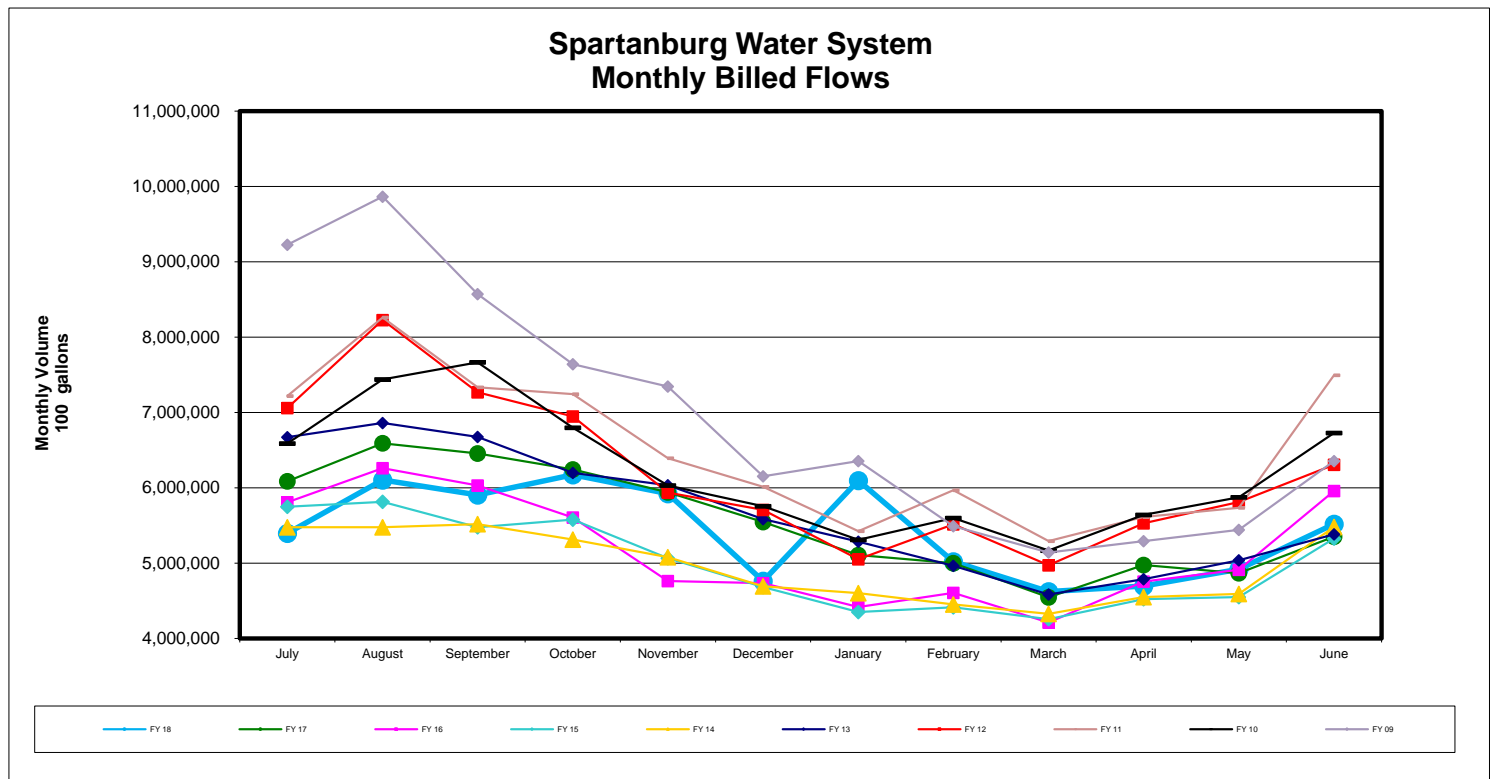
**C. Base Charge Schedule**

Meter Size	Meter Master Code	Monthly	
		Inside	Outside
5/8	1	\$ 7.50	\$ 11.25
1	2	\$ 17.11	\$ 25.67
1 1/2	3	\$ 33.13	\$ 49.71
2	4	\$ 52.36	\$ 78.55
3	5	\$ 97.23	\$ 145.86
4	6	\$ 161.33	\$ 242.01
6	7	\$ 321.58	\$ 482.38
8	8	\$ 526.70	\$ 790.06
10	9	\$ 789.51	\$ 1,184.28

## Monthly Billed Flows

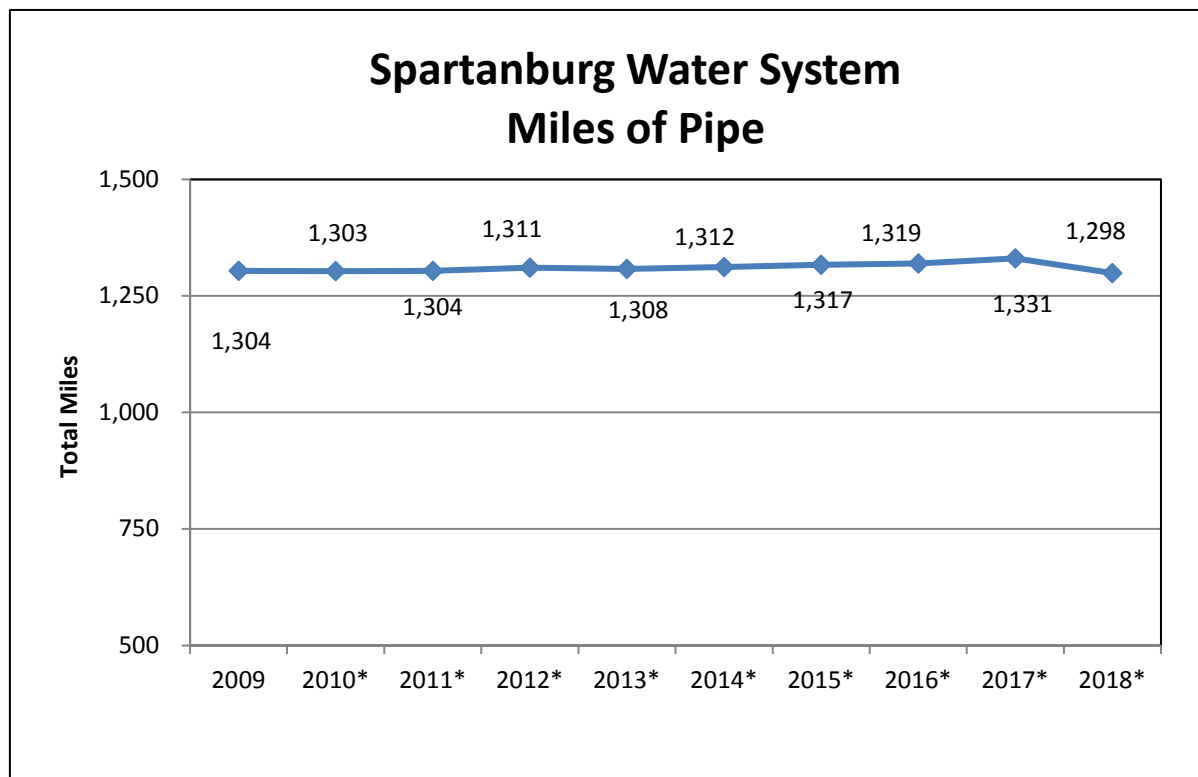
FY 2009 to FY 2018

	FY 18	FY 17	FY 16	FY 15	FY 14	FY 13	FY 12	FY 11	FY 10	FY 09
July	5,395,706	6,088,214	5,807,015	5,749,777	5,475,433	6,670,367	7,058,343	7,220,466	6,587,821	9,224,770
August	6,104,241	6,590,613	6,260,429	5,813,737	5,477,610	6,861,036	8,227,872	8,260,630	7,439,696	9,865,489
September	5,903,860	6,456,245	6,032,274	5,476,039	5,517,310	6,675,780	7,269,053	7,332,856	7,665,060	8,569,909
October	6,173,076	6,244,105	5,605,127	5,579,288	5,313,389	6,198,231	6,948,143	7,243,836	6,796,987	7,641,625
November	5,923,349	5,941,578	4,763,743	5,066,774	5,080,431	6,035,792	5,935,765	6,392,802	6,030,307	7,344,882
December	4,760,858	5,546,630	4,734,020	4,682,253	4,693,878	5,585,786	5,707,798	6,013,301	5,754,721	6,152,674
January	6,096,227	5,108,333	4,418,270	4,349,883	4,601,511	5,286,420	5,053,001	5,425,080	5,309,632	6,353,834
February	5,019,571	4,998,154	4,605,049	4,412,636	4,453,878	4,964,144	5,514,223	5,968,194	5,598,288	5,490,377
March	4,622,697	4,547,215	4,212,417	4,255,821	4,326,777	4,584,177	4,971,912	5,293,037	5,168,228	5,140,774
April	4,697,325	4,975,455	4,754,348	4,520,737	4,551,407	4,788,188	5,527,412	5,612,120	5,641,800	5,291,715
May	4,920,063	4,865,612	4,911,028	4,549,681	4,592,912	5,036,109	5,812,840	5,734,609	5,875,595	5,440,936
June	5,518,175	5,351,709	5,958,364	5,325,321	5,481,856	5,383,932	6,306,474	7,493,189	6,728,006	6,354,560
	65,135,148	66,713,863	62,062,084	59,781,947	59,566,392	68,069,962	74,332,836	77,990,120	74,596,141	82,871,545



**Miles of Pipe****FY 2009 to FY 2018**

Fiscal Year	Miles of Pipe
2018*	1,298
2017*	1,331
2016*	1,319
2015*	1,317
2014*	1,312
2013*	1,308
2012*	1,311
2011*	1,304
2010*	1,303
2009	1,304

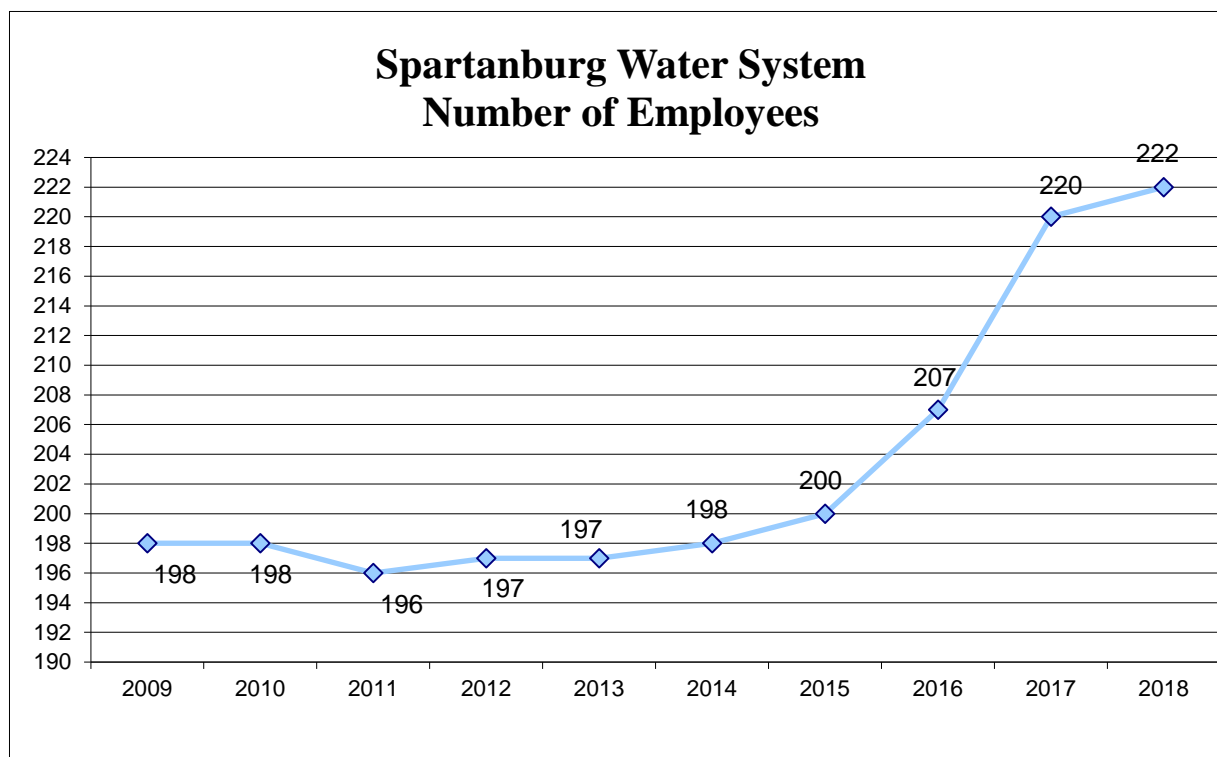


\* The change in the miles of pipe graph is due to the net effect of additional miles, less updates for abandonment and deletion in the GIS Infrastructure total.



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

Fiscal Year	Number of Employees
2018	222
2017	220
2016	207
2015	200
2014	198
2013	197
2012	197
2011	196
2010	198
2009	198



\* Numbers based on Operating Budget Employee Count.

**Annual Rainfall****FY 2009 to FY 2018**