

**SPARTANBURG SANITARY
SEWER DISTRICT**



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

I. INTRODUCTORY SECTION

SPARTANBURG SANITARY SEWER DISTRICT
SPARTANBURG, SOUTH CAROLINA

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

SUBMITTED BY:
FINANCE DEPARTMENT

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

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Spartanburg Sanitary Sewer District Officials

List of Commissioners and Senior Management Staff

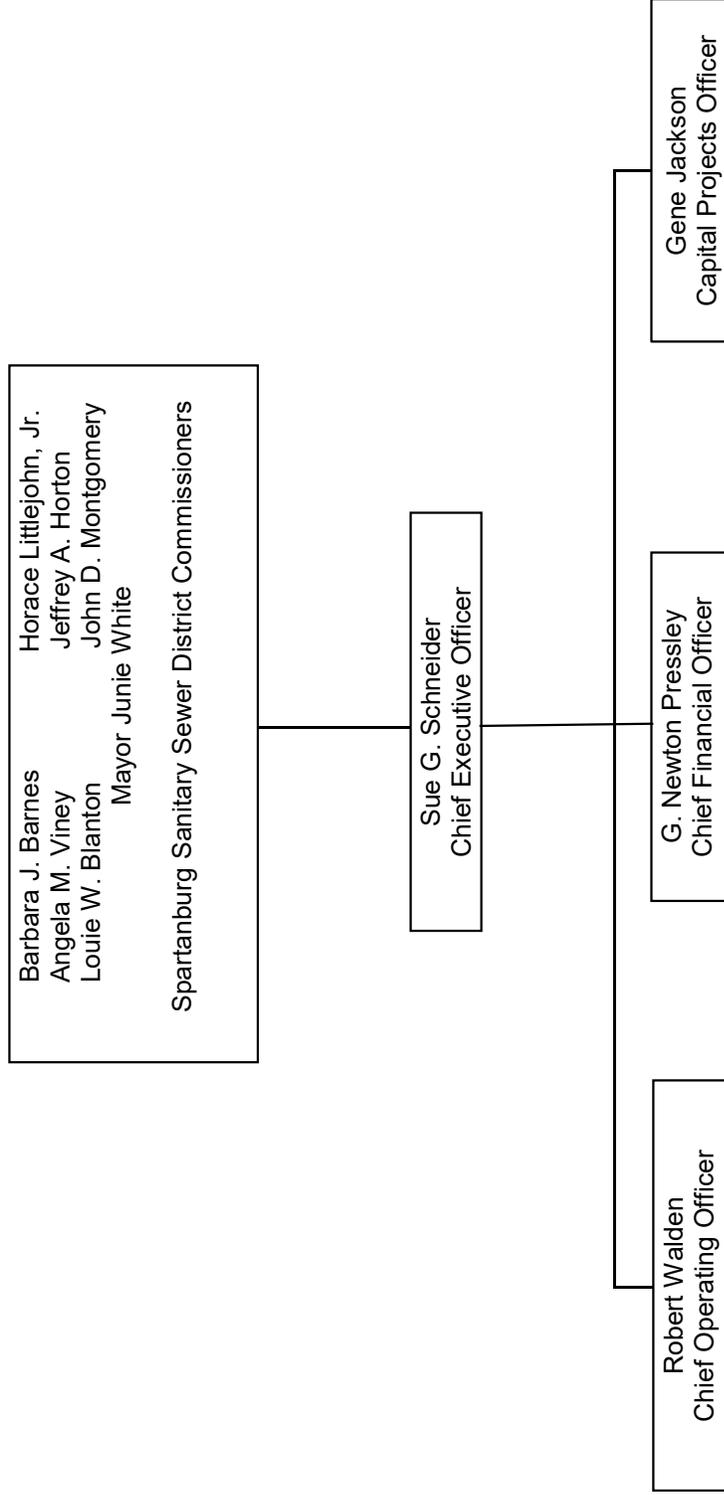
Commissioners

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

Senior Management Staff

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

Spartanburg Sanitary Sewer District Organizational Chart





Letter of Transmittal
December 2, 2019

To the Commissioners and Customers
of the Spartanburg Sanitary Sewer District

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

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

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

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

PROFILE OF THE DISTRICT

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

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

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

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

LOCAL ECONOMY

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

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

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

FINANCIAL MANAGEMENT

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

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

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

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

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

FINANCIAL CONDITION

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

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

AWARDS

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

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

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

ACKNOWLEDGEMENTS

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

Respectfully Submitted,



Sue G. Schneider
Chief Executive officer



G. Newton Pressley
Chief Financial Officer



Government Finance Officers Association

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

Presented to

**Spartanburg Sanitary Sewer District
South Carolina**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

II. FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Spartanburg Sanitary Sewer District as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis-of-Matter

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

McAbee, Schwartz, Haliday & Co.

Spartanburg, South Carolina
December 2, 2019

Spartanburg Sanitary Sewer District Management's Discussion and Analysis

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

Financial Highlights

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

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

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

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

Overview of the Financial Statements

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

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

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

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

Financial Analysis of the District

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

Financial Analysis of the District Condensed Statements of Net Position

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

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

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

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

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

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

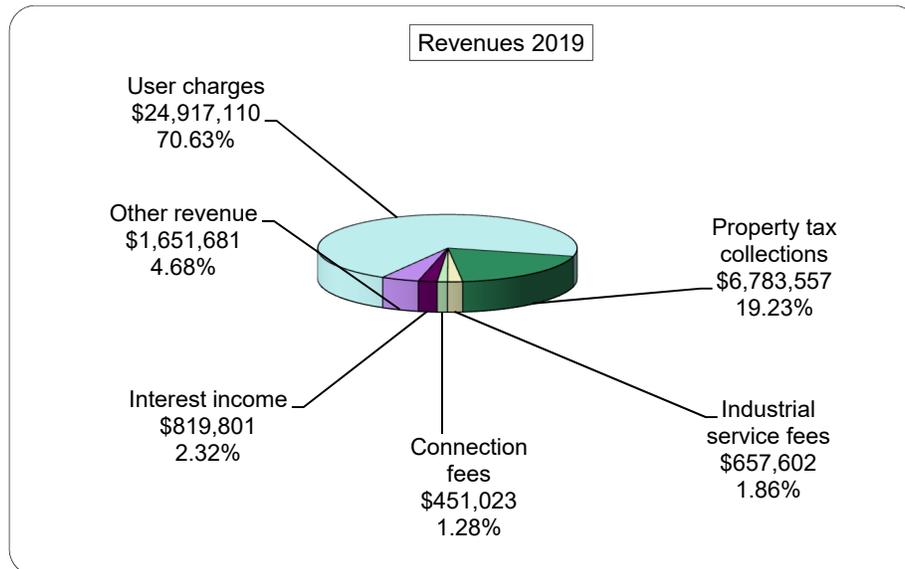
Current liabilities as of June 30, 2019, included accounts payable from operating funds of \$437,089, and accounts payable from capital funds of \$174,880, retainage payable of \$574,518 and the intercompany payable to the Spartanburg Water System of \$943,839 that is included in other payables. June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

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

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

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

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



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

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

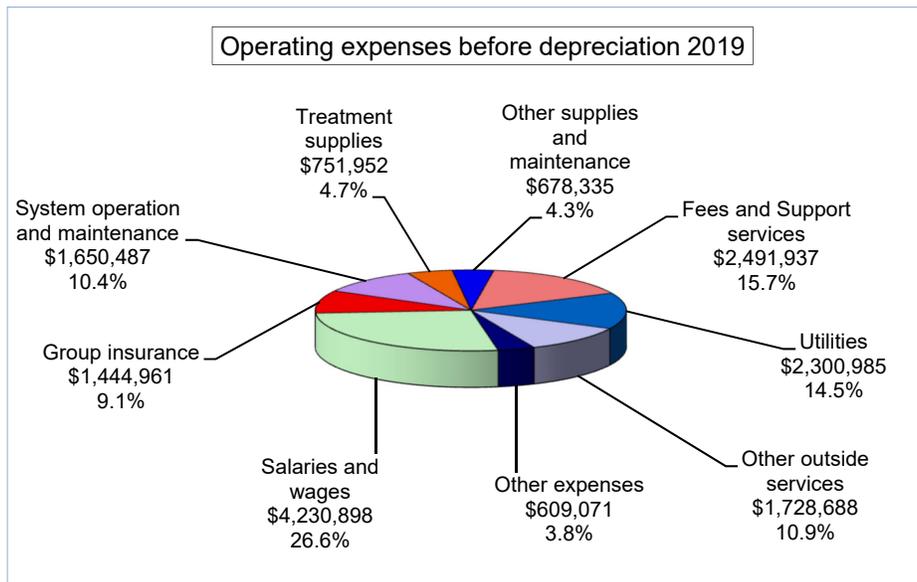
For the calendar year 2019, the operating and bond millage are 7.5 and 1.1, respectively; in comparison to 7.8 and 1.1, respectively in calendar year 2018.

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

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

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

Operating expenses before depreciation were comprised of the following:



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

Comparison of operating expenses before depreciation

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

Comparison of operating expenses before depreciation

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

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

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

Non-operating expenses totaled \$6,738,380 for the year and consisted of interest expense and paying agent fees. Total interest expense and paying agent fees increased by \$22,213.

Capital Contributions

The District receives contributions from developers in the form of cash payments and donated lines; and occasionally, contributions from federal/state agencies in the form of grants for capital projects. Accounting principles generally accepted by the United States of America require that these contributions be reflected as a revenue source on the Statements of Revenues, Expenses and Changes in Net Position. Capital contributions for fiscal year 2019 totaled \$1,983,221, a decrease of \$21,622 or 1.08%, and were comprised of donated lines. The most significant capital contributions during fiscal year 2019 are as follows: The Village at Anderson Mill, 2010 Nazareth Church Rd., Millsgate Subdivision, Kensington Creek Phase II and Orchards at Reidville Ph2. Capital contributions for fiscal year 2018 totaled \$2,004,843, a decrease of \$1,673,625, or 45.5%, from fiscal year 2017 and were comprised of donated lines. The most significant capital contributions during fiscal year 2018 were as follows: TRIP North Ph 2.1, Quik Trip, Peachtree Park, Myers Park and District 7 Elementary School.

Capital Assets

At June 30, 2019, the District had \$173,295,052 invested in capital assets, as provided in the schedule below:

| | Capital Assets at Year-End | | |
|---|----------------------------|-----------------------|-----------------------|
| | 2019 | Restated 2018 | Restated 2017 |
| Treatment plants, interceptor lines, and collection lines | \$ 304,244,707 | \$ 298,330,217 | \$ 293,837,853 |
| Other facilities and property | 1,845,999 | 1,845,999 | 1,845,999 |
| Vehicles, office and maintenance equipment | 17,067,272 | 16,570,036 | 14,887,529 |
| Construction in progress | 12,750,372 | 13,881,578 | 4,871,925 |
| Subtotal | 335,908,350 | 330,627,830 | 315,443,306 |
| Accumulated depreciation | (162,613,298) | (152,600,081) | (142,557,376) |
| Capital assets - net of depreciation | \$ 173,295,052 | \$ 178,027,749 | \$ 172,885,930 |

The fiscal year 2019 overall decrease in capital assets was a result of the increase in Treatment plants, interceptor lines, and collection lines, decrease in construction in progress and increase in current year depreciation. The Treatment plants, interceptor lines, and collection lines increase was primarily due to current and prior year construction projects completed with an offsetting decrease in donated sewer lines. The net decrease for construction in progress resulted primarily from the following closed projects: Greenville Branch Creek Sewer Interceptor Rehab, LNTR Basin Sewer Rehab Phase III and Pacolet Mills Liner Replacement.

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

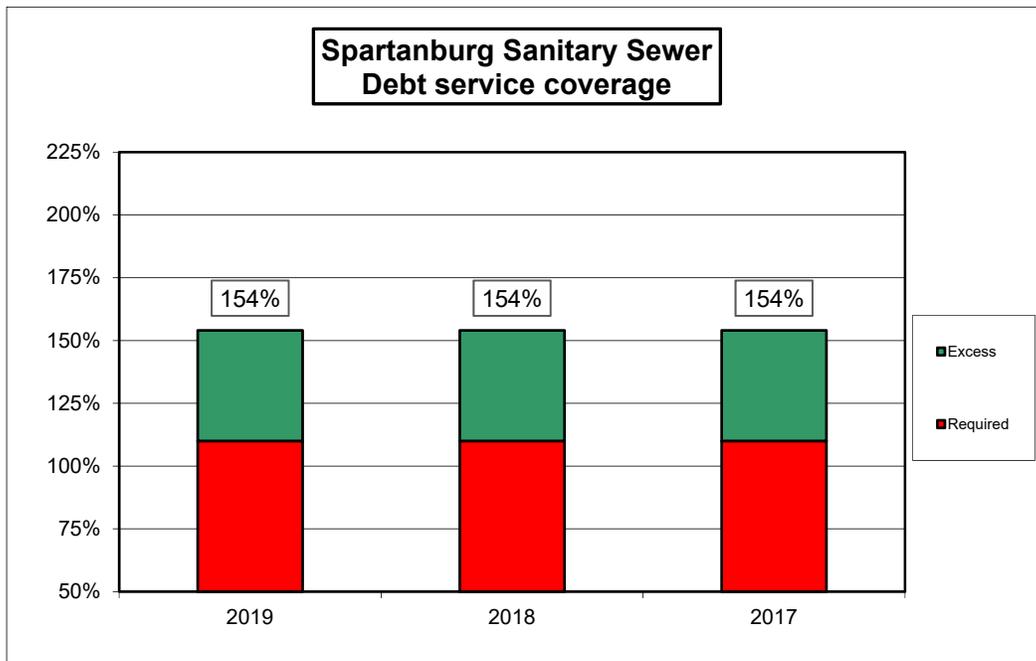
Debt Administration

Debt Service Coverage

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

The District's historical debt service coverage is summarized by the table below:

| Debt Service Coverage | 2019 | 2018 | 2017 |
|---|---------------|---------------|---------------|
| Net earnings per Revenue bond covenant | \$ 15,714,545 | \$ 15,644,508 | \$ 15,619,578 |
| Debt service requiring coverage, per covenant | | | |
| Revenue bond debt service | 9,049,389 | 9,043,103 | 9,090,061 |
| G.O. Debt service paid with revenues | - | - | - |
| Debt service amount for coverage test | \$ 9,049,389 | \$ 9,043,103 | \$ 9,090,061 |
| Debt service coverage ratio based on revenue covenant | 1.74 | 1.73 | 1.72 |
| | | | |
| Net earnings per revenue bond covenant | 15,714,545 | 15,644,509 | 15,619,578 |
| Plus: Ad valorem taxes used for G.O. debt service | 3,215,995 | 3,219,960 | 2,967,750 |
| Adjusted net earnings | \$ 18,930,540 | \$ 18,864,469 | \$ 18,587,328 |
| Total District debt service | \$ 12,265,384 | \$ 12,263,063 | \$ 12,057,811 |
| Total District debt coverage ratio | 1.54 | 1.54 | 1.54 |



Outstanding Debt at Year-End

The District had \$151,523,259 in debt outstanding at year-end, as scheduled below:

| | Average Yield | Outstanding Debt | | |
|---|---------------|-----------------------|-----------------------|-----------------------|
| | | 2019 | 2018 | 2017 |
| Long-term Debt | | | | |
| General Obligation Bonds | | | | |
| 2010 General Obligation Refunding Bonds | 3.75% | \$ 12,020,000 | \$ 12,020,000 | \$ 12,020,000 |
| 2011 General Obligation Refunding Bonds | 2.89% | 5,005,000 | 5,730,000 | 6,425,000 |
| 2013 General Obligation Bonds | 2.50% | 3,455,000 | 3,455,000 | 3,455,000 |
| 2014 General Obligation Refunding Bonds | 2.20% | 5,352,000 | 6,052,000 | 6,737,000 |
| 2016 General Obligation Bonds | 2.52% | 14,455,000 | 14,770,000 | 15,075,000 |
| | | <u>40,287,000</u> | <u>42,027,000</u> | <u>43,712,000</u> |
| Revenue Bonds | | | | |
| 2009A Sewer Revenue Refunding Bonds | 3.97% | 2,435,000 | 3,585,000 | 4,685,000 |
| 2009B Sewer Revenue Refunding Bonds | 3.97% | 12,595,000 | 13,860,000 | 15,070,000 |
| 2011 Sewer Taxable Revenue Bond | 3.49% | 475,000 | 1,445,000 | 2,385,000 |
| 2013A Sewer Revenue Refunding Bonds | 3.55% | 8,380,000 | 8,380,000 | 8,380,000 |
| 2013B Sewer Revenue Refunding Bonds | 3.55% | 50,125,000 | 50,125,000 | 50,125,000 |
| 2014A Revenue Refunding Bonds | 3.86% | 4,195,000 | 4,320,000 | 4,440,000 |
| 2014B Convertible Refunding Bonds | 3.86% | 32,960,000 | 33,330,000 | 33,685,000 |
| | | <u>111,165,000</u> | <u>115,045,000</u> | <u>118,770,000</u> |
| Loans | | | | |
| State Revolving Fund Loan | 3.50% | 71,259 | 126,844 | 181,197 |
| Total Debt Outstanding | | <u>\$ 151,523,259</u> | <u>\$ 157,198,844</u> | <u>\$ 162,663,197</u> |

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

G.O. Debt Limit

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

| | |
|---------------------------------|----------------------|
| Final 2018 Assessed Value, less | |
| mfg. depreciation reduction | \$ 708,139,488 |
| G.O. debt ceiling percentage | <u>8%</u> |
| Current G.O. debt ceiling | <u>56,651,159</u> |
| Less: outstanding G.O. debt | <u>40,287,000</u> |
| Available G.O. debt capacity | <u>\$ 16,364,159</u> |

Bond Ratings

The District improved the following ratings during fiscal year 2019:

| Agency | Revenue | G.O. |
|-------------------|---------|------|
| Standard & Poor's | AA | AA |
| Moody's | Aa3 | Aa3 |

Financial Planning

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

The District Commission approved an Annual operating budget for fiscal year 2020 in the total amount of \$34,802,395, which represents a 6.0% increase over the previous year's budgeted revenues and expenditures. The fiscal year 2020 budget included funding of reserves as follows: Depreciation fund - \$2,000,000; Capital - \$2,445,000; and the Collection system rehab fund - \$1,200,000.

Other Significant Matters

- **Collection System Rehab Program**
The District has continued rehab program efforts associated with the Collection System infrastructure. These project activities include sewer line rehab work, creek crossings, manhole rehab work, right-of-way clearing, and large line cleaning.
- **Monthly Billing**
Spartanburg Water System and Sanitary Sewer District introduced monthly billing in February 2018. Most customers were previously billed on a bimonthly basis. Monthly billing provides various benefits to customers: more efficient household budgeting, timely water usage information, and earlier detection of water leaks. Monthly billing represents the more typical billing method utilized in the water/sewer industry.
- In August 2019, the District entered into an asset purchase agreement to purchase Moore Sewer Inc.'s assets and assumed liabilities of \$155,000.
- In November 2019, the District offered \$7,135,000 in Sewer System Refunding Revenue Bonds, Series 2019 and \$10,795,000 in General Obligation Refunding Bonds, Series 2019, respectively for the purpose of refunding the outstanding Sewer System Convertible Refunding Bonds, Series 2009B and General Obligation Refunding Bonds, Series 2010, respectively, expected to close in December 2019.

Requests for Information

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

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

SPARTANBURG SANITARY SEWER DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

| | 2019 | Restated 2018 |
|--|--------------------|--------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 1,767,589 | \$ 2,728,628 |
| Investments | 25,560,182 | 20,237,907 |
| User charge receivable - net of allowance for doubtful accounts of \$133,013 and \$137,324 for 2019 and 2018, respectively | 2,859,497 | 3,251,842 |
| Taxes receivable - net of allowance for doubtful accounts of \$465,666 and \$451,460 for 2019 and 2018, respectively | 55,099 | 54,210 |
| Assessments and improvement charges receivable | 9,071 | 9,071 |
| Other receivables | 2,199,325 | 2,274,242 |
| Inventories | 1,044,088 | 1,008,528 |
| Total current assets | <u>33,494,851</u> | <u>29,564,428</u> |
| Noncurrent assets | | |
| Restricted cash | 422,500 | 343,348 |
| Restricted investments | 13,747,258 | 16,445,040 |
| Capital assets - nondepreciable | 12,750,372 | 13,881,578 |
| Capital assets - net of accumulated depreciation | 160,544,680 | 164,146,171 |
| Total noncurrent assets | <u>187,464,810</u> | <u>194,816,137</u> |
| Total Assets | <u>220,959,661</u> | <u>224,380,565</u> |
| Deferred Outflows of Resources | | |
| Deferred loss on refundings | 6,532,883 | 7,090,095 |
| Deferred amounts related to pensions | 907,900 | 1,095,186 |
| Deferred amounts related to OPEB | 507,168 | 439,678 |
| Total Deferred Outflows of Resources | <u>7,947,951</u> | <u>8,624,959</u> |

SPARTANBURG SANITARY SEWER DISTRICT
STATEMENTS OF NET POSITION - CONTINUED
JUNE 30, 2019 AND 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

| | 2019 | Restated 2018 |
|---|---------------|------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | 1,178,024 | 3,284,182 |
| Accrued salaries and wages | 354,802 | 387,701 |
| Accrued employee benefits | 137,246 | 83,618 |
| Accrued interest expense | 2,081,707 | 2,066,096 |
| Other payables | 943,839 | 895,852 |
| Long-term debt - current portion | 4,626,847 | 4,975,586 |
| Total current liabilities | 9,322,465 | 11,693,035 |
| Noncurrent liabilities | | |
| Net pension liability | 7,082,022 | 7,531,484 |
| Net other post-employment benefit liability | 3,951,875 | 3,971,065 |
| Long-term debt - net of current portion | 154,022,354 | 159,773,399 |
| Total noncurrent liabilities | 165,056,251 | 171,275,948 |
| Total Liabilities | 174,378,716 | 182,968,983 |
| Deferred Inflows of Resources | | |
| Deferred amounts related to pensions | 398,085 | 134,852 |
| Deferred amounts related to OPEB | 84,362 | 72,221 |
| Total Deferred Inflows of Resources | 482,447 | 207,073 |
| Net Position | | |
| Net investment in capital assets | 36,086,305 | 37,037,115 |
| Unrestricted | 17,960,144 | 12,792,353 |
| Total Net Position | \$ 54,046,449 | \$ 49,829,468 |

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

SPARTANBURG SANITARY SEWER DISTRICT
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | 2019 | Restated 2018 |
|---|----------------------|----------------------|
| Operating Revenues | | |
| User charge revenues | \$ 24,917,110 | \$ 24,701,500 |
| Industrial service fees | 657,602 | 566,058 |
| Treatment charges | 394,185 | 275,210 |
| Miscellaneous | 1,177,712 | 576,154 |
| | <u>27,146,609</u> | <u>26,118,922</u> |
| Operating Expenses | | |
| Operating expenses before depreciation | 15,887,314 | 14,501,674 |
| Depreciation | 10,421,350 | 10,213,381 |
| | <u>26,308,664</u> | <u>24,715,055</u> |
| Operating Income | <u>837,945</u> | <u>1,403,867</u> |
| Nonoperating Revenues (Expenses) | | |
| Connection fees | 451,023 | 556,654 |
| Property tax collections | 6,783,557 | 6,340,946 |
| Gain on sale of capital assets | 79,784 | 150,414 |
| Interest income | 819,801 | 381,107 |
| Interest expense and paying agent fees | (6,738,350) | (6,716,137) |
| | <u>1,395,815</u> | <u>712,984</u> |
| Increase in Net Position, Before Capital Contributions | 2,233,760 | 2,116,851 |
| Capital Contributions | <u>1,983,221</u> | <u>2,004,843</u> |
| Increase in Net Position | 4,216,981 | 4,121,694 |
| Net Position - Beginning of Year | <u>49,829,468</u> | <u>45,707,774</u> |
| Net Position - End of Year | <u>\$ 54,046,449</u> | <u>\$ 49,829,468</u> |

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

SPARTANBURG SANITARY SEWER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | 2019 | Restated 2018 |
|---|----------------------|----------------------|
| Cash Flows Provided (Used) by Operating Activities | | |
| Cash received from customers | \$ 27,579,329 | \$ 27,077,787 |
| Cash paid to suppliers for goods and services | (12,227,338) | (7,932,547) |
| Cash paid to or for the benefit of employees | (5,757,196) | (5,104,386) |
| | <u>9,594,795</u> | <u>14,040,854</u> |
| Cash Flows Provided (Used) by Capital and Related Financing Activities | | |
| Connection fees | 451,023 | 556,654 |
| Property tax collections | 6,783,557 | 6,340,946 |
| Acquisition and construction of capital assets | (3,713,488) | (13,350,358) |
| Proceeds from sale of capital assets | 87,840 | 150,414 |
| Principal payments - general obligation bonds | (1,740,000) | (1,685,000) |
| Principal payments - revenue bonds | (3,880,000) | (3,725,000) |
| Principal payments - state revolving fund loan | (55,586) | (54,352) |
| Interest and paying agent fees | (6,605,336) | (6,583,111) |
| | <u>(8,671,990)</u> | <u>(18,349,807)</u> |
| Cash Flows Provided (Used) by Investing Activities | | |
| Interest income | 819,801 | 381,107 |
| | <u>819,801</u> | <u>381,107</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,742,606 | (3,927,846) |
| Cash and Cash Equivalents - Beginning of Year | <u>39,754,923</u> | <u>43,682,769</u> |
| Cash and Cash Equivalents - End of Year | <u>\$ 41,497,529</u> | <u>\$ 39,754,923</u> |

SPARTANBURG SANITARY SEWER DISTRICT
 STATEMENTS OF CASH FLOWS - CONTINUED
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | <u>2019</u> | <u>Restated 2018</u> |
|--|---------------------|--------------------------|
| Reconciliation of Operating Income to Net Cash | | |
| Provided by Operating Activities: | | |
| Operating income | \$ 837,945 | \$ 1,403,867 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation | 10,421,350 | 10,213,381 |
| Pension expense | 502,700 | 703,160 |
| OPEB expense | 343,695 | 352,262 |
| (Increase) decrease in assets | | |
| User charge receivable | 392,345 | 785,891 |
| Taxes receivable | (889) | 17,919 |
| Other receivables | 74,917 | 155,056 |
| Inventories | (35,560) | (186,921) |
| Deferred amounts related to pensions | (501,643) | (410,479) |
| Deferred amounts related to OPEB | (418,234) | (405,765) |
| Increase (decrease) in liabilities | | |
| Accounts payable | (2,106,158) | 1,551,886 |
| Accrued salaries and wages | (32,899) | 218 |
| Accrued employee benefits | 53,628 | (33,817) |
| Accrued interest expense | 15,611 | (6,829) |
| Other current liabilities | 47,987 | (98,975) |
| Net Cash Provided by Operating Activities | <u>\$ 9,594,795</u> | <u>\$ 14,040,854</u> |
| Noncash Investing, Capital and Financing Activities | | |
| Contribution of capital assets | \$ 1,983,221 | \$ 2,004,843 |
| Amortization included in interest expense | \$ 133,015 | \$ 133,026 |

SPARTANBURG SANITARY SEWER DISTRICT
 STATEMENTS OF CASH FLOWS - CONTINUED
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | <u>2019</u> | <u>Restated 2018</u> |
|---|----------------------|--------------------------|
| Reconciliation of Cash and Investments as Shown on the Statements of Net Position and Cash Flow Statements | | |
| Statement of net position classifications | | |
| Current assets | | |
| Cash | \$ 1,767,589 | \$ 2,728,628 |
| Investments | 25,560,182 | 20,237,907 |
| | <u>27,327,771</u> | <u>22,966,535</u> |
| Noncurrent assets | | |
| Restricted cash | 422,500 | 343,348 |
| Restricted investments | 13,747,258 | 16,445,040 |
| | <u>14,169,758</u> | <u>16,788,388</u> |
| | <u>\$ 41,497,529</u> | <u>\$ 39,754,923</u> |
| Cash flow classifications | | |
| Petty cash | \$ 550 | \$ 550 |
| Cash deposits | 2,189,539 | 3,071,426 |
| Investments - cash equivalents | 39,307,440 | 36,682,947 |
| | <u>\$ 41,497,529</u> | <u>\$ 39,754,923</u> |

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

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Basis of Accounting

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

Use of Restricted Resources

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

Revenues and Expenses

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

Cash and Cash Equivalents

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

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments

Investments are stated at fair value.

Accounts Receivable

User charge receivables include fees for charges earned but not yet collected. Unbilled (i.e. cycle billings) receivables at year end are estimated to record revenues earned through year end. Receivables are reported net of applicable allowances for uncollectible accounts, which management determines based on historical collection trends and other factors.

Taxes Receivable and Ad Valorem Taxes

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

The District's uncollected assessed taxes that have been transferred to the Spartanburg County Delinquent Tax Collector were \$465,666 and \$451,460 at June 30, 2019 and 2018, respectively. The District has established an offsetting allowance for uncollectible taxes of the same amount.

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

Assessed values for real estate are established annually by the County Tax Assessor based on the assessment ratio applied to the appropriate class of property. Real and personal property taxes in the District's area were assessed at \$708,139,488 and \$674,118,672 for the calendar years 2018 and 2017, respectively.

Inventories

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

Capital Assets

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

Prior to fiscal year 2019, major outlays for capital assets and improvements were capitalized as projects were constructed. These costs primarily included construction costs, engineering fees, legal fees and settlements related to acquisition. Effective for fiscal year 2019, the District discontinued capitalized interest on a prospective basis per GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of the Construction Period*.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets - Continued

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

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

Compensated Absences

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

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

Long-Term Liabilities

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

Deferred Outflows and Inflows of Resources

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

Capital Contributions

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

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

Custodial credit risk - deposits - the risk that in the event of a bank failure, the deposits may not be returned to the District. The District's policy is to secure funds in accordance with Section 6-5-15 of the S.C. Code of Laws, and will include collateralization of deposits through appropriately pledged securities or other investments. As of June 30, 2019 and 2018, the District was not exposed to custodial credit risk.

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

In addition to the state laws governing allowable investment instruments, the District adopted a formal deposit and investment policy in 2019. The District is to invest its funds based on the following objectives, in priority order: safety, liquidity, and yield.

Credit risk – The District's policy to minimize the risk of loss due to the failure of the security issuer or backer is to limit investments to the safest type of securities; pre-qualify the financial institutions; and diversify the investment portfolio so that potential losses on individual securities will be minimized.

Interest rate risk - the District's policy to minimize the risk that the fair value of securities in the portfolio will fall due to changes in general interest rates is to structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

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

Level 1 - Investments reflect prices quoted in active markets.

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

Level 3 - Investments reflect prices based upon unobservable sources.

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

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

SPARTANBURG SANITARY SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 2 - CASH DEPOSITS AND INVESTMENTS - CONTINUED

The District had the following investments, which are not applicable to the fair value hierarchy, as of June 30, 2019 and 2018:

| Investment Type | Maturity | Value | | Rating |
|--------------------------------------|----------|----------------------|----------------------|-----------|
| | | 2019 | 2018 | |
| State treasurer's investment pool | <60 days | \$ 32,181,858 | \$ 29,364,987 | Not rated |
| First American Government Obligation | <60 days | 7,125,582 | 7,317,960 | Aaa-mf |
| | | <u>\$ 39,307,440</u> | <u>\$ 36,682,947</u> | |

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

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Restricted Assets for the Acquisition and Construction of Capital Assets Investments | <u>\$ 6,621,676</u> | <u>\$ 9,127,079</u> |
| Restricted Assets for Debt Service Reserve and Debt Service Funds | | |
| Cash | 422,500 | 343,348 |
| Investments | <u>7,125,582</u> | <u>7,317,961</u> |
| | <u>7,548,082</u> | <u>7,661,309</u> |
| | <u>\$ 14,169,758</u> | <u>\$ 16,788,388</u> |

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 3 - CAPITAL ASSETS

A summary of changes in capital assets follows:

| | 2019 | | | Balance June 30, 2019 |
|--|--------------------------|-------------------|------------------------|--------------------------|
| | Balance June 30, 2018 | Additions | Removals/ Disposals | |
| Capital Assets | | | | |
| Nondepreciable | | | | |
| Construction in progress | \$ 13,881,578 | \$ 2,712,706 | \$ 3,843,912 | \$ 12,750,372 |
| Depreciable | | | | |
| Treatment plants, interceptor and collection lines | 246,421,398 | 3,931,269 | - | 250,352,667 |
| Collection lines - donated | 51,908,819 | 1,983,221 | - | 53,892,040 |
| Motor equipment | 5,196,715 | 105,931 | 387,975 | 4,914,671 |
| Maintenance equipment | 10,717,883 | 764,070 | 7,307 | 11,474,646 |
| Office equipment | 655,438 | 43,424 | 20,907 | 677,955 |
| Office real estate | 257,433 | - | - | 257,433 |
| Maintenance facility | 648,572 | - | - | 648,572 |
| Joint lab building | 939,994 | - | - | 939,994 |
| Total depreciable | <u>316,746,252</u> | <u>6,827,915</u> | <u>416,189</u> | <u>323,157,978</u> |
| Total Capital Assets | <u>330,627,830</u> | <u>9,540,621</u> | <u>4,260,101</u> | <u>335,908,350</u> |
| Accumulated Depreciation | | | | |
| Treatment plants, interceptor and collection lines | 111,224,565 | 7,254,320 | - | 118,478,885 |
| Collection lines - donated | 27,012,468 | 1,834,558 | - | 28,847,026 |
| Motor equipment | 3,828,571 | 502,290 | 387,975 | 3,942,886 |
| Maintenance equipment | 8,942,430 | 756,802 | 152 | 9,699,080 |
| Office equipment | 583,927 | 28,065 | 20,006 | 591,986 |
| Office real estate | 180,787 | 7,156 | - | 187,943 |
| Maintenance facility | 401,909 | 13,067 | - | 414,976 |
| Joint lab building | 425,424 | 25,092 | - | 450,516 |
| | <u>152,600,081</u> | <u>10,421,350</u> | <u>408,133</u> | <u>162,613,298</u> |
| Capital Assets, Net of Accumulated Depreciation | <u>\$ 178,027,749</u> | | | <u>\$ 173,295,052</u> |

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 3 - CAPITAL ASSETS - CONTINUED

| | 2018 | | | Balance June 30, 2018 |
|--|--------------------------|-------------------|------------------------|--------------------------|
| | Balance June 30, 2017 | Additions | Removals/ Disposals | |
| Capital Assets | | | | |
| Nondepreciable | | | | |
| Construction in progress | \$ 4,871,925 | \$ 10,968,769 | \$ 1,959,116 | \$ 13,881,578 |
| Depreciable | | | | |
| Treatment plants, interceptor and collection lines | 243,933,878 | 2,487,520 | - | 246,421,398 |
| Collection lines - donated | 49,903,975 | 2,004,844 | - | 51,908,819 |
| Motor equipment | 4,245,410 | 1,076,799 | 125,494 | 5,196,715 |
| Maintenance equipment | 10,013,349 | 733,122 | 28,588 | 10,717,883 |
| Office equipment | 628,770 | 43,262 | 16,594 | 655,438 |
| Office real estate | 257,433 | - | - | 257,433 |
| Maintenance facility | 648,572 | - | - | 648,572 |
| Joint lab building | 939,994 | - | - | 939,994 |
| Total depreciable | 310,571,381 | 6,345,547 | 170,676 | 316,746,252 |
| Total Capital Assets | 315,443,306 | 17,314,316 | 2,129,792 | 330,627,830 |
| Accumulated Depreciation | | | | |
| Treatment plants, interceptor and collection lines | 104,014,636 | 7,209,929 | - | 111,224,565 |
| Collection lines - donated | 25,187,109 | 1,825,359 | - | 27,012,468 |
| Motor equipment | 3,601,566 | 352,499 | 125,494 | 3,828,571 |
| Maintenance equipment | 8,216,107 | 754,911 | 28,588 | 8,942,430 |
| Office equipment | 575,153 | 25,368 | 16,594 | 583,927 |
| Office real estate | 173,632 | 7,155 | - | 180,787 |
| Maintenance facility | 388,841 | 13,068 | - | 401,909 |
| Joint lab building | 400,332 | 25,092 | - | 425,424 |
| | 142,557,376 | 10,213,381 | 170,676 | 152,600,081 |
| Capital Assets, Net of Accumulated Depreciation | \$ 172,885,930 | | | \$ 178,027,749 |

Depreciation expense for the years ended June 30, 2019 and 2018 was \$10,421,350 and \$10,213,381, respectively.

Interest costs incurred during the year ended June 30, 2019 and 2018 were \$6,605,578 and \$6,784,437, respectively. Interest capitalized for the year ended June 30, 2018 was \$231,664.

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 - LONG-TERM DEBT

| | 2019 | | | | |
|---------------------------|--------------------------|-------------|-----------------------|--------------------------|------------------------|
| | Balance June 30, 2018 | Additions | Reductions | Balance June 30, 2019 | Due Within One Year |
| Bonds Payable | | | | | |
| General obligation bonds | \$ 42,027,000 | \$ - | \$ (1,740,000) | \$ 40,287,000 | \$ 1,085,000 |
| Revenue bonds | 115,045,000 | - | (3,880,000) | 111,165,000 | 3,485,000 |
| State revolving fund loan | 126,845 | - | (55,586) | 71,259 | 56,847 |
| Less deferred amounts: | | | | | |
| Bond premium | 7,550,140 | - | (424,198) | 7,125,942 | - |
| | <u>\$ 164,748,985</u> | <u>\$ -</u> | <u>\$ (6,099,784)</u> | <u>\$ 158,649,201</u> | <u>\$ 4,626,847</u> |

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

General Obligation Bonds

Bonds payable at June 30, 2019 and 2018 were comprised of the following issues:

| | 2019 | 2018 |
|--|---------------|---------------|
| \$12,135,000 General Obligation Refunding Bonds, Series 2010, dated January 7, 2010. Annual maturities of \$115,000 to \$3.275 million maturing in 2025 with semi-annual interest of 2.00% to 4.00%. Bonds were issued to refund the 2001, 2002 and 2004 General Obligation Bonds. | \$ 12,020,000 | \$ 12,020,000 |
| \$9,480,000 General Obligation Refunding Bonds, Series 2011, dated April 14, 2011. Annual maturities of \$115,000 to \$920,000 maturing in 2025 with semi-annual interest of 2.00% to 4.00%. Bonds were issued to refund most of the Series 2002 General Obligation Bonds. | 5,005,000 | 5,730,000 |
| \$3,455,000 General Obligation Bonds, Series 2013, dated March 1, 2014. One lump sum principal payment due upon maturity in 2038 with semi-annual interest of 5.00%. Bonds were converted from the Series 2013B Refunding Revenue and Convertible Bonds. | 3,455,000 | 3,455,000 |

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 - LONG-TERM DEBT - CONTINUED

General Obligation Bonds - Continued

| | 2019 | 2018 |
|---|---------------|---------------|
| \$8,062,000 General Obligation Refunding Bonds, Series 2014, dated July 8, 2014. Annual maturities of \$655,000 to \$816,000 maturing in 2027 with semi-annual interest of 1.10%. Bonds were issued to defray the costs of District improvements. | 5,352,000 | 6,052,000 |
| \$15,325,000 General Obligation Bonds, Series 2016, dated August 30, 2016. Annual maturities of \$250,000 to \$765,000 maturing in 2046 with semi-annual interest of 2.00% to 4.00%. Bonds were issued to defray the costs of District improvements and pay off the Bond Anticipation Note. | 14,455,000 | 14,770,000 |
| | 40,287,000 | 42,027,000 |
| Less: current portion | (1,085,000) | (1,040,000) |
| Total long-term general obligation bonds payable | \$ 39,202,000 | \$ 40,987,000 |

Debt service requirements to maturity including interest on the general obligation bonds as of June 30, 2019 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|---------------|---------------|---------------|
| 2020 | \$ 1,085,000 | \$ 1,426,694 | \$ 2,511,694 |
| 2021 | 1,850,000 | 1,364,429 | 3,214,429 |
| 2022 | 4,481,000 | 1,299,623 | 5,780,623 |
| 2023 | 5,007,000 | 1,131,765 | 6,138,765 |
| 2024 | 5,194,000 | 943,007 | 6,137,007 |
| 2025-2029 | 8,830,000 | 2,796,668 | 11,626,668 |
| 2030-2034 | 2,540,000 | 2,253,773 | 4,793,773 |
| 2035-2039 | 6,385,000 | 1,697,200 | 8,082,200 |
| 2040-2044 | 3,405,000 | 539,250 | 3,944,250 |
| 2045-2046 | 1,510,000 | 68,250 | 1,578,250 |
| | \$ 40,287,000 | \$ 13,520,659 | \$ 53,807,659 |

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 - LONG-TERM DEBT - CONTINUED

Revenue Bonds

Bonds payable at June 30, 2019 and 2018 were comprised of the following issues:

| | 2019 | 2018 |
|--|--------------|--------------|
| \$7,865,000 Sewer System Refunding Revenue Bonds Series 2009A, dated December 30, 2009. Maturities from 2014 to 2021 with semi-annual interest of 2.50% to 5.0%. Bonds issued to refund the outstanding 1999 Series A Refunding | \$ 2,435,000 | \$ 3,585,000 |
| \$21,265,000 Sewer System Refunding Convertible Bonds Series 2009B, dated December 30, 2009. Maturities from 2011 to 2022 and 2026 to 2028 with semi-annual interest of 2.50% to 5.0%. Bonds issued to refund the most of the outstanding 1999 Series B CIB and all the outstanding 1999 Series B CAB Refunding Revenue Bonds including the accreted interest. | 12,595,000 | 13,860,000 |
| \$10,260,000 Sewer System Taxable Revenue Bonds Series 2011, dated November 2, 2011. Maturities from 2016 to 2025 with semi-annual interest of 1.89% to 4.18%. Bonds issued to retire the outstanding Sewer System Revenue Bond Anticipation Note, Series 2010. In 2014, a portion of these bonds were partially refunded with the Sewer System | 475,000 | 1,445,000 |
| \$9,220,000 Sewer System Refunding Revenue and Convertible Bonds Series 2013A, dated April 3, 2013. Maturities from 2014 to 2040 with semi-annual interest of 1.00% to 4.00%. Bonds issued to retire the outstanding Sewer System Convertible Bonds, Series 2003A. | 8,380,000 | 8,380,000 |
| \$53,730,000 Sewer System Refunding Revenue and Convertible Bonds Series 2013B, dated April 3, 2013. Maturities from 2014 to 2038 with semi-annual interest of 1.00% to 5.00%. Bonds issued to retire the outstanding Sewer System Improvement and Refunding Convertible Bonds, Series 1999B and the outstanding Sewer System Convertible Bonds, Series 2003B. In 2013, converted \$3,455,000 to General | 50,125,000 | 50,125,000 |
| \$4,680,000 Sewer System Refunding Revenue Bonds, Series 2014A, dated December 4, 2014. Annual maturities of \$15,000 to \$295,000 maturing in 2040 with semi-annual interest of 2.00% to 5.00%. Bonds were issued to retire the outstanding Sewer System Revenue Bonds, Series 2005A. | 4,195,000 | 4,320,000 |

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 - LONG-TERM DEBT - CONTINUED

| | 2019 | 2018 |
|--|----------------|----------------|
| \$34,480,000 Sewer System Refunding Revenue Bonds, Series 2014B, dated December 4, 2014. Annual maturities of \$100,000 to \$8,685,000 maturing in 2040 with semi-annual interest of 2.00% to 5.00%. Bonds were issued to retire the outstanding Sewer System Revenue Bonds, Series 2005B. | 32,960,000 | 33,330,000 |
| | 111,165,000 | 115,045,000 |
| Less: current portion | (3,485,000) | (3,880,000) |
| Total long-term revenue bonds payable | \$ 107,680,000 | \$ 111,165,000 |

State Revolving Fund Loan

\$626,900 South Carolina Water Quality Revolving Fund Authority Loan (State revolving fund loan) was assumed by the District with the transfer of the City of Spartanburg's sewer lines. The balance as of June 30, 2019 and 2018 was \$71,259 and \$126,845, respectively. The loan matures September 2020, with principal and interest payments quarterly of \$14,493 with an interest rate of 2.25%. In a separate agreement, the state revolving fund loan was given first lien bond status and deemed fully secured by the gross revenues of the District, same as the revenue bonds.

Debt service requirements to maturity including interest on the revenue bonds and the state revolving fund loan as of June 30, 2019 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|----------------|---------------|----------------|
| 2020 | \$ 3,541,847 | \$ 4,978,322 | \$ 8,520,169 |
| 2021 | 3,154,412 | 4,830,012 | 7,984,424 |
| 2022 | 805,000 | 4,678,131 | 5,483,131 |
| 2023 | 565,000 | 4,643,281 | 5,208,281 |
| 2024 | 585,000 | 4,626,331 | 5,211,331 |
| 2025-2029 | 21,300,000 | 21,668,538 | 42,968,538 |
| 2030-2034 | 32,965,000 | 15,230,900 | 48,195,900 |
| 2035-2039 | 38,485,000 | 6,841,188 | 45,326,188 |
| 2040 | 9,835,000 | 393,400 | 10,228,400 |
| | \$ 111,236,259 | \$ 67,890,103 | \$ 179,126,362 |

NOTE 5 - CAPITAL CONTRIBUTIONS

Donated assets and/or grants provided to finance capital expenditures are accounted for as capital contributions. During the years ended June 30, 2019 and 2018, the District received the following as donated assets:

| | 2019 | 2018 |
|----------------|--------------|--------------|
| Donated assets | \$ 1,983,221 | \$ 2,004,843 |

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 6 - PENSION PLAN

Plan Description - The District, as the employer, participates in the South Carolina Retirement System (SCRS) Plan - a cost-sharing multiple-employer defined benefit pension plan administered and managed by the South Carolina Public Employee Benefit Authority (PEBA), a state agency. PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223.

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

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

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

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

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

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 6 - PENSION PLAN - CONTINUED

Contributions - Contributions are prescribed in Title 9 of the South Carolina Code of Laws. If the scheduled employee and employer contributions provided in statute, or the rates last adopted by the board, are insufficient to maintain the amortization period set in statute, the board shall increase employer contribution rates as necessary. After June 30, 2027, if the most recent actuarial valuation of the SCRS for funding purposes shows a ratio of the actuarial value of the system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 85%, then the board, effective the following July 1st, may decrease the current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85%. The Retirement System Funding Administration Act establishes a ceiling on employee contribution rates at 9%. The employer contribution rates will continue to increase annually by 1% through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56%. The amortization period is scheduled to be reduced one year for each of the next 10 years to a 20 year amortization period. Required employee (both Class II and III) contribution rates for the years ended June 30, 2019 and 2018 was 9%. The required employer contribution rate for the years ended June 30, 2019 and 2018 was 14.41% and 13.41%, respectively. Both required employee and employer contribution rates are calculated on earnable compensation as defined by Title 9 of the South Carolina Code of Laws. Employers also contribute an additional .15% of earnable compensation, if participating in the death benefit program.

Contributions to the Plan from the District were \$501,643 and \$410,479, for the years ended June 30, 2019 and 2018, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2019, the District reported a net pension liability of \$7,082,022 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability, net pension liability and sensitivity information are based on an actuarial valuation performed as of July 1, 2017. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end June 30, 2018, using generally accepted actuarial procedures. The allocation of the District's proportionate shares of the collective net pension liability and pension expense were calculated on the basis of the District's contributions actually remitted to the plan relative to the total contributions remitted to the plan for all participating employers, less employer contributions that are not a representative of future contributions efforts, as of June 30, 2018. Based upon this information, the District's proportion of the collective net pension liability at June 30, 2019 and 2018 was .031607% and .033456%, respectively, a decrease of .00185% since June 30, 2017, the prior measurement date.

For the year ended June 30, 2019, the District recognized pension expense of \$536,354. The District also recognized revenue of \$33,654 as a result of a non-employer contribution from the State of South Carolina. The funds, approved by the General Assembly to help offset a portion of the burden of increased employer contributions, were sent directly to PEBA for the SCRS trust fund and represented 1% of the SCRS employer contribution increase for the year ended June 30, 2018. For the year ended June 30, 2018, the District recognized pension expense of \$703,160. At June 30, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to the pension as follows:

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 6 - PENSION PLAN - CONTINUED

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

| 2019 | | |
|--|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 12,784 | \$ 398,085 |
| Changes in assumptions | 280,975 | - |
| Net difference between projected and actual earnings on pension plan investments | 112,498 | - |
| District contributions subsequent to the measurement date | 501,643 | - |
| Total | \$ 907,900 | \$ 398,085 |

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

\$501,643 reported as deferred outflows of resources related to pensions in 2019 resulted from District contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30 | \$ |
|-----------------------|-----------------|
| 2020 | 145,766 |
| 2021 | 55,530 |
| 2022 | (173,970) |
| 2023 | (19,154) |
| | \$ 8,172 |

Actuarial Assumptions - Actuarial valuations of the plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the System was most recently issued for the period ending July 1, 2015.

SPARTANBURG SANITARY SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 6 - PENSION PLAN - CONTINUED

Actuarial Assumptions - Continued - The June 30, 2018 total pension liability, net pension liability, and sensitivity information determined by the July 1, 2017 valuation, used the following actuarial assumptions and methods:

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

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

The long-term expected rate of return on pension plan investments is based upon the 30 year capital market assumptions. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees. Expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation, and is summarized in the following table. For actuarial purposes, the 7.25% assumed annual investment rate of return used in the calculation of the total pension liability includes 5.00% real rate of return and a 2.25% inflation component.

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|----------------------------------|--------------------------|---|
| Global Equity | 47% | 3.38% |
| Real Assets | 10% | 0.42% |
| Opportunistic | 13% | 0.48% |
| Diversified Credit | 18% | 0.65% |
| Conservative Fixed Income | 12% | 0.10% |
| Total Expected Real Return | <u>100%</u> | <u>5.03%</u> |
| Inflation for Actuarial Purposes | | <u>2.25%</u> |
| Total Expected Nominal Return | | <u>7.28%</u> |

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

SPARTANBURG SANITARY SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 6 - PENSION PLAN - CONTINUED

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

| | 1% Decrease (6.25%) | Discount Rate (7.25%) | 1% Increase (8.25%) |
|--|------------------------|--------------------------|------------------------|
| District's proportionate share of the collective net pension liability | \$ 9,049,509 | 7,082,022 | \$ 5,675,457 |

Pension Plan Fiduciary Net Position - Detailed information regarding the fiduciary net position of the plan, administered by PEBA, is available in the Systems' audited financial statements for the fiscal year ended June 30, 2018 (including the unmodified opinion on the financial statements). Information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting. Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2018. The additional information is publically available on PEBA's Retirement Benefits' website at www.peba.sc.gov.

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS

Plan Description

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

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

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

SPARTANBURG SANITARY SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Plan Membership

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

| | |
|---|--|
| Inactive plan members of beneficiaries receiving benefits | 21 |
| Active plan members | 79 |
| Total plan members | <div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">100</div> |

Contributions

The Plan is financed on a pay-as-you-go basis and through separate contributions to SCORBET based on the actuarially determined employer contribution. The SCORBET allows each member to choose a contribution amount into the trust based on the actuarially determined employer contribution. The District paid \$488,805 and \$447,206 in pay-as-you-go and SCORBET contributions for the years ended June 30, 2019 and 2018.

Net OPEB Liability

The District's net OPEB liability as of June 30, 2019 and 2018 of \$3,951,875 and \$3,971,065, respectively was measured as of December 31, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability as of June 30, 2019 and 2018 was determined by an actuarial valuation date of January 1, 2017.

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

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

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

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

SPARTANBURG SANITARY SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Net OPEB Liability - Continued

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

| | |
|---------------------------|---------|
| Fixed income | 94.30% |
| Cash and cash equivalents | 5.70% |
| | 100.00% |

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

Changes in the Net OPEB Liability

The total OPEB liability (TOL) is based upon the actuarial valuation performed as of the January 1, 2017 valuation date. An expected TOL as of December 31, 2018 for the year ending 2019 is determined using standard roll back techniques. An expected TOL is determined as of December 31, 2017 for the year ending 2018 using standard roll forward techniques. The roll forward calculation begins with the TOL, as of January 1, 2017, subtracts the expected benefit payments for the year, applies interest at the discount rate for the year, and then adds the annual normal cost (also called the service cost). The procedure used to determine the TOL, as of December 31, 2018 and 2017, is shown in the following table:

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Changes in the Net OPEB Liability – Continued

| 2019 | | | |
|---|--------------------------------|--|------------------------------|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (c) |
| Balance as of December 31, 2017 | \$ 6,195,143 | \$ 2,224,078 | \$ 3,971,065 |
| Changes for the Year | | | |
| Service cost | 216,360 | - | 216,360 |
| Interest | 290,060 | - | 290,060 |
| Difference between expected and actual experience | (24,263) | - | (24,263) |
| Contributions - employer | - | 468,293 | (468,293) |
| Net investment income | - | 33,054 | (33,054) |
| Benefit payments | (179,293) | (179,293) | - |
| Net Changes | <u>302,864</u> | <u>322,054</u> | <u>(19,190)</u> |
| Balance as of December 31, 2018 | <u>\$ 6,498,007</u> | <u>\$ 2,546,132</u> | <u>\$ 3,951,875</u> |

| 2018 | | | |
|---|--------------------------------|--|------------------------------|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (c) |
| Balance as of December 31, 2016 | \$ 5,879,321 | \$ 1,906,645 | \$ 3,972,676 |
| Changes for the Year | | | |
| Service cost | 210,058 | - | 210,058 |
| Interest | 277,159 | - | 277,159 |
| Difference between expected and actual experience | (81,564) | - | (81,564) |
| Contributions - employer | - | 369,831 | (369,831) |
| Net investment income | - | 54,351 | (54,351) |
| Benefit payments | (89,831) | (89,831) | - |
| Plan administrative expenses | - | (16,918) | 16,918 |
| Net Changes | <u>315,822</u> | <u>317,433</u> | <u>(1,611)</u> |
| Balance as of December 31, 2017 | <u>\$ 6,195,143</u> | <u>\$ 2,224,078</u> | <u>\$ 3,971,065</u> |

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

| | Discount Rate Sensitivity | | |
|--|---------------------------|------------------------|----------------------|
| | 1% Decrease 3.75% | Discount Rate 4.75% | 1% Increase 5.75% |
| | Net OPEB Liability | \$ 5,173,319 | \$ 3,951,875 |

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

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

| Health Care Cost Trend Rate Sensitivity | | | |
|---|----------------|--------------|----------------|
| | 1% Decrease | Current | 1% Increase |
| Net OPEB Liability | \$ 2,769,744 | \$ 3,951,875 | \$ 5,516,704 |

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

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

For the years ended June 30, 2019 and 2018, the District recognized OPEB expense of \$343,695 and \$352,262, respectively. At June 30, 2019 and 2018, the District reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

| 2019 | | |
|---|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 84,362 |
| Net difference between projected and actual earnings on plan investments | 88,934 | - |
| District contributions subsequent to the measurement date | 418,234 | - |
| | \$ 507,168 | \$ 84,362 |
| 2018 | | |
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 72,221 |
| Net difference between projected and actual earnings on plan investments | 33,913 | - |
| District contributions subsequent to the measurement date | 405,765 | - |
| | \$ 439,678 | \$ 72,221 |

SPARTANBURG SANITARY SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 7 - POST RETIREMENT HEALTH CARE BENEFITS - CONTINUED

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

\$418,234 reported as deferred outflows of resources related to OPEB in 2019, resulted from District contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Measurement Period Ended December 31: | | |
|---|-----------|--------------|
| 2019 | \$ | 12,231 |
| 2020 | | 12,231 |
| 2021 | | 12,232 |
| 2022 | | 3,752 |
| 2023 | | (12,122) |
| Thereafter | | (23,752) |
| | <u>\$</u> | <u>4,572</u> |

NOTE 8 - DEFERRED COMPENSATION PLANS

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

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

NOTE 9 - RISK MANAGEMENT

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

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

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

SPARTANBURG SANITARY SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 9 - RISK MANAGEMENT - CONTINUED

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

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

The District provides employee health care under a self-funded insurance program. A commercial insurance company provides aggregate stop loss coverage for claims in excess of \$4,437,858 including Spartanburg Water System and specific stop loss coverage for each claim in excess of \$95,000. The following represents the change in unfilled, unpaid claims from July 1, 2018 to June 30, 2019 and July 1, 2017 to June 30, 2018:

| | 2019 | 2018 |
|-----------------------------|-------------|-----------|
| Beginning of year liability | \$ 29,927 | \$ 67,279 |
| Claims | 1,148,740 | 621,094 |
| Claims payments | (1,102,975) | (658,446) |
| End of year liability | \$ 75,692 | \$ 29,927 |

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

NOTE 10 - RELATED PARTY TRANSACTIONS

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

| | 2019 | 2018 |
|--|--------------|--------------|
| Billing and collection fees | \$ 611,460 | \$ 613,452 |
| Administrative fees | 1,019,832 | 987,636 |
| Labor reimbursements | 599,870 | 560,921 |
| Water quality and maintenance facility | 220,428 | 166,018 |
| Fleet service fees | 131,968 | 138,161 |
| Engineering | 755,413 | 528,899 |
| Operations fee | 136,551 | 194,208 |
| | \$ 3,475,522 | \$ 3,189,295 |

SPARTANBURG SANITARY SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 10 - RELATED PARTY TRANSACTIONS - CONTINUED

The following amounts were due from (to) Spartanburg Water System at June 30, 2019 and 2018:

| | 2019 | 2018 |
|------------------------|--------------|--------------|
| User charges collected | \$ 1,792,577 | \$ 1,781,973 |
| Other receivables | 406,748 | 492,270 |
| Miscellaneous payable | (943,839) | (895,852) |
| | \$ 1,255,486 | \$ 1,378,391 |

The District with the Spartanburg Water System jointly owns an office building on North Liberty Street in downtown Spartanburg, South Carolina. The facility provides offices for the engineering and other support service departments that serve both organizations. The District owns an undivided interest of the office building. At June 30, 2019 and 2018, the District's share is included in capital assets with a cost of \$257,433 and accumulated depreciation of \$187,943 and \$180,787, respectively.

The District also jointly owns with the Spartanburg Water System approximately 42 acres on Highway 295 by-pass in Spartanburg County for future additional space requirements and facilities to accommodate a maintenance shop and personnel involved in maintenance activities. At June 30, 2019 and 2018, the District's share is included in capital assets with a cost of \$648,572 and accumulated depreciation of \$414,976 and \$401,909, respectively.

The District additionally with the Spartanburg Water System jointly owns a laboratory building on Highway 295 by-pass in Spartanburg County. The facility provides offices and laboratories for the industrial wastewater, backflow prevention and water quality services. At June 30, 2019 and 2018, the District's share is included in capital assets with a cost of \$939,994 and accumulated depreciation of \$450,516 and \$425,424, respectively.

NOTE 11 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES AND COMMITMENTS

Sick Pay

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

Unemployment Compensation

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

Federal and State Assisted Programs

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

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

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

Underground Storage Tanks

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

Construction Commitments

Outstanding commitments on construction contracts totaled \$833,382 and \$1,099,480 at June 30, 2019 and 2018, respectively.

Arbitrage Rebate Liabilities

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

NOTE 12 - TAX ABATEMENTS

The District's property tax revenues were reduced by \$581,398 and \$530,915 under Fee in Lieu of Ad Valorem Tax (FILOT) agreements and Special Source Revenue Credits (SSRC) entered into by Spartanburg County for the years ended June 30, 2019 and 2018, respectively. The District received a total of \$477,081 and \$433,816 under both FILOT and SSRC tax agreements for the years ended June 30, 2019 and 2018, respectively. Under the FILOT agreements, taxpayers receive a reduction in ad valorem property taxes through reduced assessed valued and locked millage rates. Due to these agreements, the taxpayers realized a benefit of \$426,419 and \$473,666, respectively. Under the SSRC program, taxpayers receive a percentage reduction off their total property tax bill if their property qualified for the program. Due to this program, the taxpayers realized a benefit of \$154,979 and \$57,249, respectively.

NOTE 13 - RECLASSIFICATIONS

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

SPARTANBURG SANITARY SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

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

The District has restated its previously issued financial statements for the year ended June 30, 2018 for matters relating to the following previously reported items: capital assets – net of accumulated depreciation and depreciation expense due to calculation errors during software conversion. The accompanying financial statements for 2018 have been restated to reflect the correction that resulted in an increase in net position of \$674,355. The District also reclassified a portion of net position that is restricted for debt service reserves that was originally included in net investment in capital assets of \$4,206,144, which has no effect on total net position. The effect on the previously issued 2018 financial statements is summarized as follows:

| | Previously Reported | Increase (Decrease) | Restated |
|---|------------------------|------------------------|----------------|
| Statements of Net Position | | | |
| Capital assets - net of accumulated depreciation | \$ 163,471,816 | \$ 674,355 | \$ 164,146,171 |
| Total noncurrent assets | 194,141,782 | 674,355 | 194,816,137 |
| Total assets | 223,706,210 | 674,355 | 224,380,565 |
| | | | |
| Net investment in capital assets | 40,568,904 | (3,531,789) | 37,037,115 |
| Unrestricted | 8,586,209 | 4,206,144 | 12,792,353 |
| Total net position | 49,155,113 | 674,355 | 49,829,468 |
| | | | |
| Statements of Revenues, Expenses and Changes in Net Position | | | |
| Depreciation expense | 10,887,736 | (674,355) | 10,213,381 |
| Total operating expenses | 25,389,410 | (674,355) | 24,715,055 |
| Operating Income | 729,512 | 674,355 | 1,403,867 |
| Increase in net position | | | |
| before capital contributions | 1,442,496 | 674,355 | 2,116,851 |
| Increase in net position | 3,447,339 | 674,355 | 4,121,694 |
| Net Position - End of Year | 49,155,113 | 674,355 | 49,829,468 |
| | | | |
| Statements of Cash Flows | | | |
| Reconciliation of operating income to net cash provided operating activities: | | | |
| Operating income | 729,512 | 674,355 | 1,403,867 |
| Depreciation expense | 10,887,736 | (674,355) | 10,213,381 |

For the fiscal year ending June 30, 2018, the District restated beginning net position to capitalize interest expense to construction in progress resulting in an increase in beginning net position of \$56,431. Furthermore, the District adopted Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation required the District to record beginning net OPEB liability and contributions made subsequent to the measurement date as deferred outflows of resources and remove the net OPEB asset as required by GASB Statement 45. Beginning 2018 net position was restated as follows:

SPARTANBURG SANITARY SEWER DISTRICT
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

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

| | 2018 |
|---|---------------|
| Net Position - Beginning of Year | \$ 49,341,326 |
| Capitalization of Interest Expense | 56,431 |
| Removal of the Net OPEB Asset (GASB 45) | (32,872) |
| Implementation of GASB Statement 75 - Net OPEB Liability | (3,972,676) |
| Implementation of GASB Statement 75 - Deferred Outflows Related to OPEB | 315,565 |
| Net Position - Beginning of Year - Restated | \$ 45,707,774 |

NOTE 15 – SUBSEQUENT EVENTS

In August 2019, the District entered into an asset purchase agreement with Moore Sewer, Inc. for the purchase of Moore Sewer, Inc.'s assets and assumed liabilities for \$155,000.

In November 2019, the District offered \$7,635,000 of Sewer System Refunding Revenue Bonds, Series 2019 for the purpose of refunding the outstanding Sewer System Refunding Convertible Bonds, Series 2009B that are expected to close in December 2019.

Also, in November 2019, the District offered \$10,795,000 of General Obligation Refunding Bonds, Series 2019 for the purpose of refunding the outstanding General Obligation Refunding Bonds, Series 2010 that are expected to close in December 2019.

REQUIRED SUPPLEMENTARY INFORMATION

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

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|--------------|--------------|--------------|--------------|--------------|
| District's Proportion of the Collective Net Pension Liability | 0.031607% | 0.033456% | 0.034070% | 0.034171% | 0.034769% |
| District's Proportionate Share of the Collective Net Pension Liability | \$ 7,082,022 | \$ 7,531,484 | \$ 7,277,302 | \$ 6,480,695 | \$ 5,986,069 |
| District's Covered Payroll | \$ 3,275,319 | \$ 3,375,640 | \$ 3,299,241 | \$ 3,203,928 | \$ 3,156,544 |
| District's Proportionate Share of the Collective Net Pension Liability as a Percentage of its Covered Payroll | 216.22% | 223.11% | 220.58% | 202.27% | 189.64% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 54.10% | 53.34% | 52.91% | 56.99% | 59.92% |

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

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

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|--------------|--------------|--------------|--------------|--------------|
| Statutorially Required Contributions | \$ 501,643 | \$ 410,479 | \$ 390,224 | \$ 364,896 | \$ 344,422 |
| Contributions in Relation to the Statutorially Required Contributions | 501,643 | 410,479 | 390,224 | 364,896 | 344,422 |
| Contribution Deficiency (Excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| District's Covered Payroll | \$ 3,445,353 | \$ 3,275,319 | \$ 3,375,640 | \$ 3,299,241 | \$ 3,203,928 |
| Contributions as a Percentage of Covered Payroll | 14.56% | 12.53% | 11.56% | 11.06% | 10.75% |

Notes to Schedules:

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

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

| | <u>2019</u> | <u>2018</u> |
|--|----------------------------|----------------------------|
| Total OPEB Liability | | |
| Service cost | \$ 216,360 | \$ 210,058 |
| Interest on total OPEB liability | 290,060 | 277,159 |
| Difference between expected and actual experience | (24,263) | (81,564) |
| Benefit payments | <u>(179,293)</u> | <u>(89,831)</u> |
| Net Change in Total OPEB Liability | 302,864 | 315,822 |
| Total OPEB Liability - Beginning of Year | <u>6,195,143</u> | <u>5,879,321</u> |
| Total OPEB Liability - End of Year (a) | <u><u>\$ 6,498,007</u></u> | <u><u>\$ 6,195,143</u></u> |
| Plan Fiduciary Net Position | | |
| Contributions - employer | \$ 468,293 | \$ 369,831 |
| Net investment income | 33,054 | 54,351 |
| Benefit payments | (179,293) | (89,831) |
| Administrative expenses | <u>-</u> | <u>(16,918)</u> |
| Net Change in Plan Fiduciary Net Position | 322,054 | 317,433 |
| Plan Fiduciary Net Position - Beginning of Year | <u>2,224,078</u> | <u>1,906,645</u> |
| Plan Fiduciary Net Position - End of Year (b) | <u><u>\$ 2,546,132</u></u> | <u><u>\$ 2,224,078</u></u> |
| Net OPEB Liability - Ending (a-b) | <u><u>\$ 3,951,875</u></u> | <u><u>\$ 3,971,065</u></u> |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 39.18% | 35.90% |
| Covered Payroll | \$ 3,299,959 | \$ 3,299,959 |
| Net OPEB Liability as a Percentage of Covered Payroll | 119.76% | 120.34% |

Notes to Schedule:

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

SPARTANBURG SANITARY SEWER DISTRICT
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
LAST TEN FISCAL YEARS ENDING JUNE 30

| | 2019 | 2018 |
|---|--------------|--------------|
| Actuarially Determined Contribution (ADC) | \$ 408,947 | \$ 364,489 |
| Contributions in Relation to the ADC | 488,805 | 447,207 |
| Annual Contribution Deficiency (Excess) | \$ (79,858) | \$ (82,718) |
| Covered Payroll | \$ 3,299,959 | \$ 3,299,959 |
| Actual Contributions as a Percentage of Covered Payroll | 14.81% | 13.55% |

Notes to Schedule:

Valuation Date January 1, 2017

Methods and Assumptions Used to Determine Contributions Rates:

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

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

SUPPLEMENTARY INFORMATION

SPARTANBURG SANITARY SEWER DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|-----------------------------------|----------------------|----------------------|
| Personnel Costs | | |
| Salaries and wages | \$ 3,468,225 | \$ 3,284,878 |
| State retirement | 518,584 | 693,608 |
| Employer's social security taxes | 244,089 | 229,950 |
| Group insurance | 1,444,961 | 1,059,411 |
| Workers' compensation | 62,237 | 42,119 |
| | <u>5,738,096</u> | <u>5,309,966</u> |
| Supplies and Maintenance | | |
| Printing and office supplies | 15,635 | 10,728 |
| Safety equipment and supplies | 16,448 | 23,003 |
| Equipment maintenance | 102,390 | 77,973 |
| Vehicle operation and maintenance | 103,394 | 122,773 |
| Fuel | 132,575 | 123,457 |
| System operation and maintenance | 1,650,487 | 1,618,098 |
| Building and grounds maintenance | 251,981 | 238,122 |
| Treatment and filter supplies | 751,952 | 521,077 |
| Laboratory supplies | 55,912 | 127,929 |
| | <u>3,080,774</u> | <u>2,863,160</u> |
| Outside Services | | |
| Utilities | 2,162,375 | 1,813,877 |
| Telephone | 138,610 | 121,506 |
| Uniform rentals | 46,613 | 35,724 |
| Legal fees | 261,184 | 77,506 |
| Consulting services | 122,753 | 145,013 |
| Audit | 15,055 | 14,688 |
| Fees and support services | 2,491,937 | 2,405,163 |
| Postage and delivery | 83,758 | 58,115 |
| Other | 1,199,325 | 1,104,837 |
| | <u>6,521,610</u> | <u>5,776,429</u> |
| Educational and Training Expenses | | |
| Conferences and education | 67,364 | 44,096 |
| Professional dues and memberships | 111,092 | 108,339 |
| Employment expenses | 13,706 | 10,820 |
| Safety and employee programs | 18,708 | 22,085 |
| | <u>210,870</u> | <u>185,340</u> |
| Company Expenses | | |
| Property and liability insurance | 203,908 | 182,753 |
| Bad debt expense | 86,161 | 157,038 |
| Public relations and information | 25,474 | 7,945 |
| Miscellaneous expense | 20,421 | 19,043 |
| | <u>335,964</u> | <u>366,779</u> |
| Total Operating Expenses | <u>\$ 15,887,314</u> | <u>\$ 14,501,674</u> |

**III. STATISTICAL SECTION
(UNAUDITED)**

Statistical Section

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

Contents

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

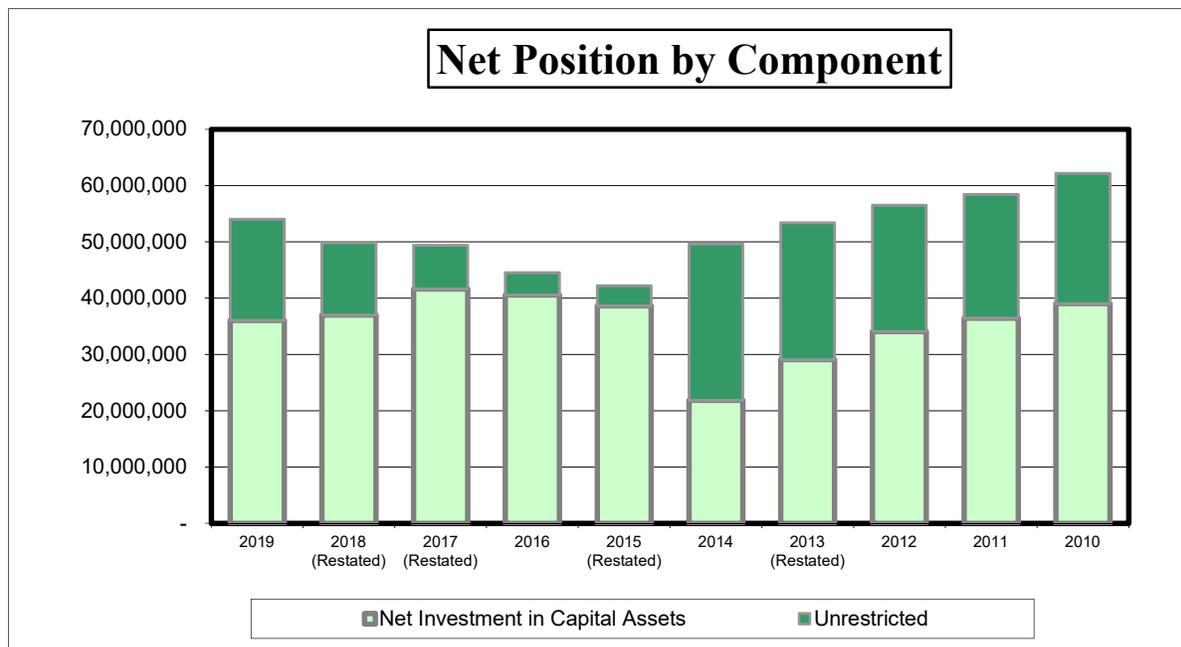
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Financial Trends

Net Position by Component

FY 2010 to FY 2019

| Fiscal Year | Net Investment in Capital Assets | Unrestricted | Total Net Position |
|-----------------|----------------------------------|---------------|--------------------|
| 2019 | \$ 36,086,305 | \$ 17,960,144 | \$ 54,046,449 |
| 2018 (Restated) | 37,037,115 | 12,792,353 | 49,829,468 |
| 2017 (Restated) | 41,632,938 | 7,764,819 | 49,397,757 |
| 2016 | 40,584,822 | 3,943,071 | 44,527,893 |
| 2015 (Restated) | 38,642,654 | 3,552,482 | 42,195,136 |
| 2014 | 21,861,156 | 27,760,264 | 49,621,420 |
| 2013 (Restated) | 29,089,018 | 24,334,802 | 53,423,820 |
| 2012 | 34,054,965 | 22,442,683 | 56,497,648 |
| 2011 | 36,450,190 | 21,980,956 | 58,431,146 |
| 2010 | 39,052,825 | 23,117,151 | 62,169,976 |



* 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 2010 TO FY 2019

| | FY 2019 | FY 2018 (Restated) | FY 2017 (Restated) | FY 2016 | FY 2015 (Restated) | FY 2014 | FY 2013 (Restated) | FY 2012 | FY 2011 | FY 2010 |
|--|---------------|--------------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|---------------|---------------|
| Revenues | | | | | | | | | | |
| Operating revenues | | | | | | | | | | |
| User charge revenues | \$ 24,917,110 | \$ 24,701,500 | \$ 25,081,281 | \$ 22,919,183 | \$ 20,123,998 | \$ 20,383,889 | \$ 20,261,923 | \$ 19,612,860 | \$ 18,036,732 | \$ 17,911,933 |
| Other operating revenues | 2,229,499 | 1,417,422 | 1,248,996 | 1,284,838 | 1,292,586 | 1,282,491 | 1,328,131 | 1,326,351 | 1,194,606 | 1,198,291 |
| Total operating revenues | 27,146,609 | 26,118,922 | 26,330,277 | 24,204,021 | 21,416,584 | 21,666,380 | 21,590,054 | 20,939,211 | 19,231,338 | 19,110,224 |
| Nonoperating revenues | | | | | | | | | | |
| Property tax collections | 6,783,557 | 6,340,946 | 6,038,111 | 5,024,690 | 4,933,591 | 4,795,266 | 4,645,343 | 4,585,212 | 4,603,660 | 4,613,814 |
| Other nonoperating revenues | 1,350,608 | 1,088,175 | 778,754 | 624,630 | 391,386 | 279,639 | 358,637 | 257,584 | 245,214 | 400,887 |
| Total nonoperating revenues | 8,134,165 | 7,429,121 | 6,816,865 | 5,649,320 | 5,324,977 | 5,074,905 | 5,003,980 | 4,842,796 | 4,848,874 | 5,014,701 |
| Total revenues | 35,280,774 | 33,548,043 | 33,147,142 | 29,853,341 | 26,741,561 | 26,741,285 | 26,594,034 | 25,782,007 | 24,080,212 | 24,124,925 |
| Expenses | | | | | | | | | | |
| Operating expenses, before depreciation | 15,887,314 | 14,501,674 | 14,523,095 | 14,147,144 | 13,862,028 | 15,624,500 | 13,228,455 | 12,455,467 | 12,088,292 | 11,587,195 |
| Depreciation expense | 10,421,350 | 10,213,381 | 10,371,935 | 10,095,657 | 9,640,858 | 9,225,118 | 8,950,903 | 8,660,842 | 8,512,687 | 8,422,590 |
| Nonoperating expenses | 6,738,350 | 6,716,137 | 7,060,716 | 6,611,994 | 6,878,900 | 6,916,202 | 7,546,465 | 7,747,848 | 7,916,738 | 7,640,535 |
| Total expenses | 33,047,014 | 31,431,192 | 31,955,746 | 30,854,795 | 30,381,786 | 31,765,820 | 29,725,823 | 28,864,157 | 28,517,717 | 27,650,320 |
| Change in net position before capital contributions | 2,233,760 | 2,116,851 | 1,191,396 | (1,001,454) | (3,640,225) | (5,024,535) | (3,131,789) | (3,082,150) | (4,437,505) | (3,525,395) |
| Capital contributions | 1,983,221 | 2,004,843 | 3,678,468 | 3,334,211 | 2,475,057 | 1,222,135 | 1,479,036 | 1,148,652 | 698,675 | 2,218,665 |
| Change in net position | 4,216,981 | 4,121,694 | 4,869,864 | 2,332,757 | (1,165,168) | (3,802,400) | (1,652,753) | (1,933,498) | (3,738,830) | (1,306,730) |
| Net position, beginning of year, restated (2018, 2015) | 49,829,468 | 45,707,774 | 44,527,893 | 42,195,136 | 43,360,304 | 53,423,820 | 56,497,648 | 58,431,146 | 62,169,976 | 63,476,706 |
| Change in accounting principle | - | - | - | - | - | - | (1,421,075) | - | - | - |
| Net position, beginning of year, restated | - | - | - | - | - | - | 55,076,573 | - | - | - |
| Net position, end of year | \$ 54,046,449 | \$ 49,829,468 | \$ 49,397,757 | \$ 44,527,893 | \$ 42,195,136 | \$ 49,621,420 | \$ 53,423,820 | \$ 56,497,648 | \$ 58,431,146 | \$ 62,169,976 |

Revenues By Source

FY 2010 to FY 2019

| Fiscal Year | Operating Revenues | | | | | Non Operating Revenues | | | | | Total Revenues |
|-----------------|----------------------|-------------------------|-------------------|---------------|-----------------|--------------------------|-----------------|---------------|--|--------------|----------------|
| | User Charge Revenues | Industrial Service Fees | Treatment Charges | Miscellaneous | Connection Fees | Property Tax Collections | Interest Income | Other Revenue | | | |
| 2019 | \$ 24,917,110 | \$ 657,602 | \$ 394,185 | \$ 1,177,712 | \$ 451,023 | \$ 6,783,557 | \$ 819,801 | \$ 79,784 | | \$35,280,774 | |
| 2018 (restated) | 24,701,500 | 566,058 | 275,210 | 576,154 | 556,654 | 6,340,946 | 381,107 | 150,414 | | 33,548,043 | |
| 2017 (restated) | 25,081,281 | 492,704 | 145,320 | 610,972 | 466,277 | 6,038,111 | 206,175 | 106,302 | | 33,147,142 | |
| 2016 | 22,919,183 | 495,097 | 179,700 | 610,041 | 493,660 | 5,024,690 | 60,978 | 69,992 | | 29,853,341 | |
| 2015 (restated) | 20,123,998 | 525,505 | 157,965 | 609,116 | 361,822 | 4,933,591 | 36,495 | (6,931) | | 26,741,561 | |
| 2014 | 20,383,889 | 497,374 | 144,513 | 640,604 | 240,208 | 4,795,266 | 21,053 | 18,378 | | 26,741,285 | |
| 2013 (restated) | 20,261,923 | 501,578 | 110,580 | 715,973 | 228,255 | 4,645,343 | 47,900 | 82,482 | | 26,594,034 | |
| 2012 | 19,612,860 | 470,096 | 98,280 | 757,975 | 180,472 | 4,585,212 | 63,412 | 13,700 | | 25,782,007 | |
| 2011 | 18,036,732 | 452,401 | 85,645 | 656,560 | 147,642 | 4,603,660 | 94,645 | 2,927 | | 24,080,212 | |
| 2010 | 17,911,933 | 522,347 | 91,045 | 584,899 | 169,002 | 4,613,814 | 154,642 | 77,243 | | 24,124,925 | |

Operating Expenses**FY 2010 to FY 2019**

| Fiscal Year | Personnel Costs | Supplies and Maintenance | Outside Services | Educational and Training | Company Expenses | Depreciation Expense | Total Operating Expenses |
|-----------------|-----------------|--------------------------|------------------|--------------------------|------------------|----------------------|--------------------------|
| 2019 | \$ 5,738,096 | \$ 3,080,774 | \$ 6,521,610 | \$ 210,870 | \$ 335,964 | \$ 10,421,350 | \$ 26,308,664 |
| 2018 (Restated) | 5,309,966 | 2,863,160 | 5,776,429 | 185,340 | 366,779 | 10,213,381 | 24,715,055 |
| 2017 (Restated) | 5,436,508 | 3,072,230 | 5,560,810 | 156,140 | 297,407 | 10,371,935 | 24,895,030 |
| 2016 | 4,956,742 | 2,999,581 | 5,779,333 | 144,600 | 266,888 | 10,095,657 | 24,242,801 |
| 2015 (Restated) | 5,138,186 | 2,905,400 | 5,365,774 | 199,654 | 253,014 | 9,640,858 | 23,502,886 |
| 2014 | 5,183,109 | 4,656,950 | 5,387,059 | 150,367 | 247,015 | 9,225,118 | 24,849,618 |
| 2013 (Restated) | 4,911,436 | 2,725,398 | 5,172,432 | 161,616 | 257,573 | 8,950,903 | 22,179,358 |
| 2012 | 4,713,928 | 2,600,460 | 4,723,378 | 118,332 | 299,369 | 8,660,842 | 21,116,309 |
| 2011 | 4,507,888 | 2,314,832 | 4,795,687 | 110,793 | 359,092 | 8,512,687 | 20,600,979 |
| 2010 | 4,414,626 | 2,266,754 | 4,494,869 | 78,066 | 332,880 | 8,422,590 | 20,009,785 |

Revenue Capacity

Historical Rate Information

FY 2010 to FY 2019

| Fiscal Year | Residential Rate History* (Avg. 2 Mth. Bill) | Volume Charge (per 100 gal) |
|-------------|---|--------------------------------|
| 2019** | 43.50 | 0.675 |
| 2018 | 87.13 | 0.675 |
| 2017 | 87.13 | 0.675 |
| 2016 | 80.50 | 0.675 |
| 2015 | 73.80 | 0.644 |
| 2014 | 73.80 | 0.644 |
| 2013 | 73.80 | 0.644 |
| 2012 | 69.00 | 0.602 |
| 2011 | 63.45 | 0.552 |
| 2010 | 63.45 | 0.552 |

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

** Changed from Bi- monthly billing to monthly billing. 5,600G/billing cycle.

Schedule of Historical Discharge

CY 2009 to CY 2018

| Calendar Year | Billion Gallons | Average MGD* |
|---------------|-----------------|--------------|
| 2018 | 4.953 | 13.463 |
| 2017 | 4.307 | 11.742 |
| 2016 | 4.482 | 12.207 |
| 2015 | 5.189 | 14.218 |
| 2014 | 5.129 | 14.051 |
| 2013 | 5.436 | 14.892 |
| 2012 | 4.618 | 12.644 |
| 2011 | 4.432 | 12.143 |
| 2010 | 4.215 | 11.550 |
| 2009 | 4.682 | 12.827 |

*Million gallons per day of effluent discharge

Property Tax Collections **CY 2009 to CY 2018**

| Calendar Year End | Property Taxes Levy | Property Taxes Collected | Property Taxes Collected | Percent Collected | Delinquent Taxes Collected | Percent Delinquent Collected | Total Collections To Date | Total Percent Collected | General Fund Millage | Bond Millage | Total Direct Rate |
|-------------------|---------------------|--------------------------|--------------------------|-------------------|----------------------------|------------------------------|---------------------------|-------------------------|----------------------|--------------|-------------------|
| 2018 | \$5,523,930 | \$ 5,283,828 | \$ 5,283,828 | 95.65% | \$ 207,547 | 3.93% | \$ 5,491,375 | 99.41% | 7.5 | 1.1 | 8.6 |
| 2017 | 5,046,954 | 4,802,196 | 4,802,196 | 95.15% | 176,844 | 3.68% | 4,979,040 | 98.65% | 7.8 | 1.1 | 8.9 |
| 2016 | 4,654,268 | 4,411,841 | 4,411,841 | 94.79% | 207,547 | 4.70% | 4,619,388 | 99.25% | 7.5 | 1.4 | 8.9 |
| 2015 | 4,548,071 | 4,319,618 | 4,319,618 | 94.98% | 174,100 | 4.03% | 4,493,718 | 98.80% | 7.5 | - | - |
| 2014 | 4,460,353 | 4,232,404 | 4,232,404 | 94.89% | 182,588 | 4.31% | 4,414,992 | 98.98% | 7.5 | - | - |
| 2013 | 4,465,012 | 4,215,799 | 4,215,799 | 94.42% | 169,090 | 4.01% | 4,384,889 | 98.21% | 7.5 | - | - |
| 2012 | 4,286,070 | 4,061,083 | 4,061,083 | 94.75% | 177,206 | 4.36% | 4,238,289 | 98.89% | 7.5 | - | - |
| 2011 | 4,286,748 | 4,041,995 | 4,041,995 | 94.29% | 168,760 | 4.18% | 4,210,755 | 98.23% | 7.5 | - | - |
| 2010 | 4,255,448 | 3,963,300 | 3,963,300 | 93.13% | 122,998 | 3.10% | 4,086,298 | 96.03% | 7.5 | - | - |
| 2009 | 4,297,656 | 3,983,816 | 3,983,816 | 92.70% | 242,678 | 6.09% | 4,226,494 | 98.34% | 7.5 | - | - |

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

Source: Spartanburg County Treasurer

Ten Largest Taxpayers**CY 2009 & CY 2018**

| Customer | 2009 | | | 2018 | | |
|---------------------------------------|----------------------|----------------------|--------------|----------------------|----------------------|--------------|
| | Assessed Value | Taxes Paid | 2009 Ranking | Assessed Value | Taxes Paid | 2018 Ranking |
| Duke Energy Corp | \$ 10,175,910 | \$ 3,958,119 | 1 | \$ 16,837,884 | \$ 6,931,496 | 1 |
| Michelin North America | 2,524,392 | 841,127 | 7 | 9,118,316 | 3,342,467 | 2 |
| R R Donnelley & Sons Co. | 2,385,532 | 925,109 | 6 | 6,186,777 | 2,618,262 | 3 |
| Mary Black Health System LLC | 2,121,950 | 804,856 | 9 | 5,815,120 | 2,450,707 | 4 |
| Toray Composite Materials America Inc | | | | 5,390,828 | 1,999,997 | 5 |
| Spartanburg DC Inc | | | | 4,950,290 | 1,849,428 | 6 |
| DSI Draexlmaier Service INC | | | | 4,102,690 | 1,479,430 | 7 |
| Norfolk Southern Corp | | | | 3,594,693 | 1,405,538 | 8 |
| Yeomans Charles L III Etal | 3,403,290 | 1,343,619 | 3 | 3,001,490 | 1,312,251 | 9 |
| Piedmont Natural Gas Co Inc | | | | 3,166,097 | 1,298,041 | 10 |
| Kohler Company | 2,063,865 | 787,462 | 10 | | | |
| BellSouth Communications | 3,968,970 | 1,660,887 | 2 | | | |
| Tietex International LTD | 2,600,710 | 815,577 | 8 | | | |
| JM Smith Corporation | 2,674,860 | 1,031,792 | 5 | | | |
| General Motors Corp | 4,570,680 | 1,314,842 | 4 | | | |
| TOTAL | \$ 36,490,159 | \$ 13,483,390 | | \$ 62,164,185 | \$ 24,687,617 | |

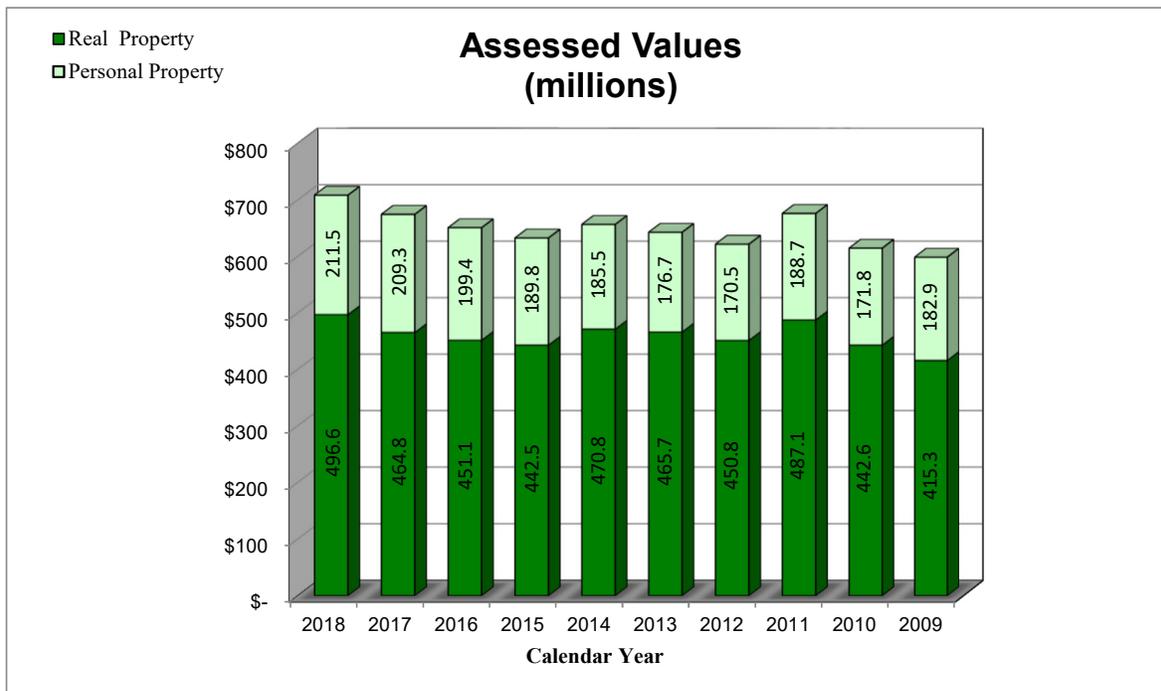
Taxes Paid includes fee in lieu of tax payments.

Source: Spartanburg County Auditor.

Assessed Values

CY 2009 to CY 2018

| Calendar Year | Real Property | Personal Property | Total Assessed Value | Total Market Value | Ratio of Total Assessed to Total Market Value |
|---------------|----------------|-------------------|----------------------|--------------------|---|
| 2018 | \$ 496,597,374 | \$ 211,542,114 | \$ 708,139,488 | \$ 12,204,733,974 | 5.80% |
| 2017 | 464,836,614 | 209,282,058 | 674,118,672 | 12,704,176,452 | 5.31% |
| 2016 | 451,147,672 | 199,382,197 | 650,529,869 | 12,071,913,210 | 5.39% |
| 2015 | 442,472,475 | 189,832,607 | 632,305,082 | 12,071,913,310 | 5.24% |
| 2014 | 470,822,346 | 185,478,388 | 656,300,734 | 12,435,584,275 | 5.28% |
| 2013 | 465,685,663 | 176,669,073 | 642,354,736 | 12,215,954,989 | 5.26% |
| 2012 | 450,846,048 | 170,504,586 | 621,350,634 | 11,708,359,340 | 5.31% |
| 2011 | 487,104,198 | 188,653,908 | 675,758,106 | 12,103,408,186 | 5.58% |
| 2010 | 442,550,588 | 171,756,394 | 614,306,982 | 12,430,532,872 | 4.94% |
| 2009 | 415,333,152 | 182,937,413 | 598,270,565 | 12,598,714,712 | 4.75% |

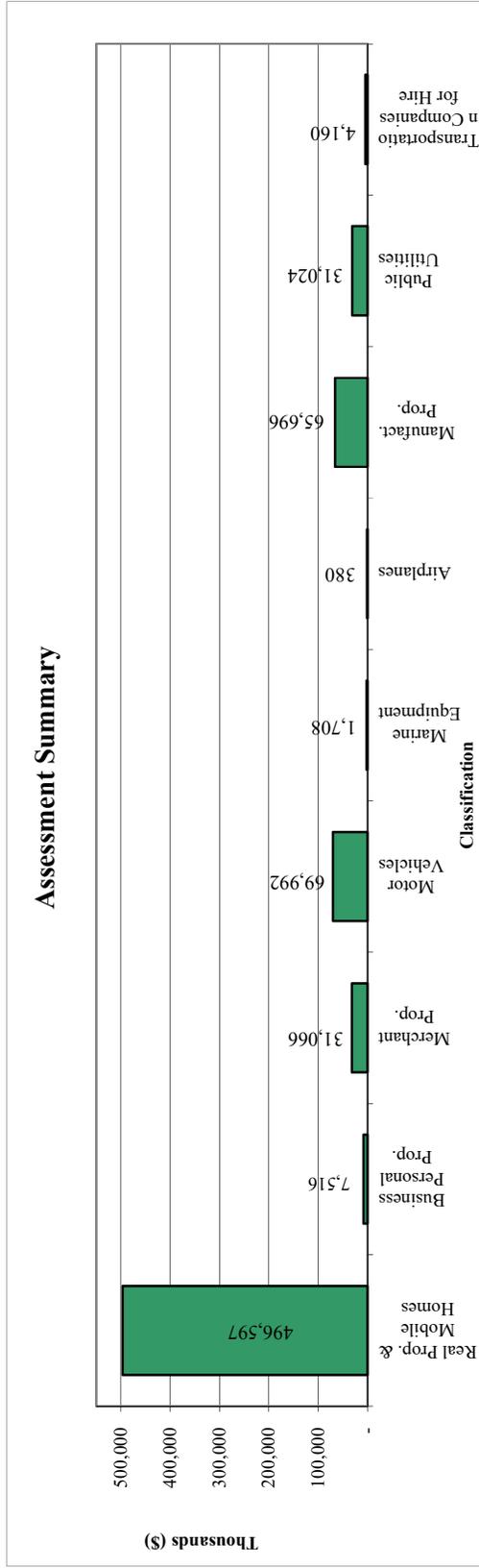


Source: Spartanburg County Auditor & Assessor

Assessed Value Summary

CY 2018

| Classification | Assessed Value | Assessment Ratio | Market Value |
|--|-----------------------|------------------|--------------------------|
| 1. Real Property and Mobile Homes | \$ 496,597,374 | 4% & 6% | \$ 12,204,733,974 |
| 2. Business Personal Property | 7,516,080 | 10.5% | 51,697,143 |
| 3. Merchants' Furniture, Fixtures, and Equipment | 31,066,390 | 10.5% | 295,870,381 |
| 4. Motor Vehicles | 69,991,834 | 6.0% | 1,166,589,567 |
| 5. Marine Equipment | 1,708,090 | 10.0% | 16,267,524 |
| 6. Airplanes | 379,790 | 4.0% | 9,494,750 |
| 7. Manufacturing Property | 65,695,930 | 10.5% | 654,560,095 |
| 8. Public Utilities | 31,024,361 | 10.5% | 295,470,105 |
| 9. Transportation Companies for Hire | 4,159,639 | 9.5% | 43,785,674 |
| TOTALS | \$ 708,139,488 | | \$ 14,738,469,212 |



Source: Spartanburg County Auditor

Ten Largest Customers

FY 2010 & FY 2019

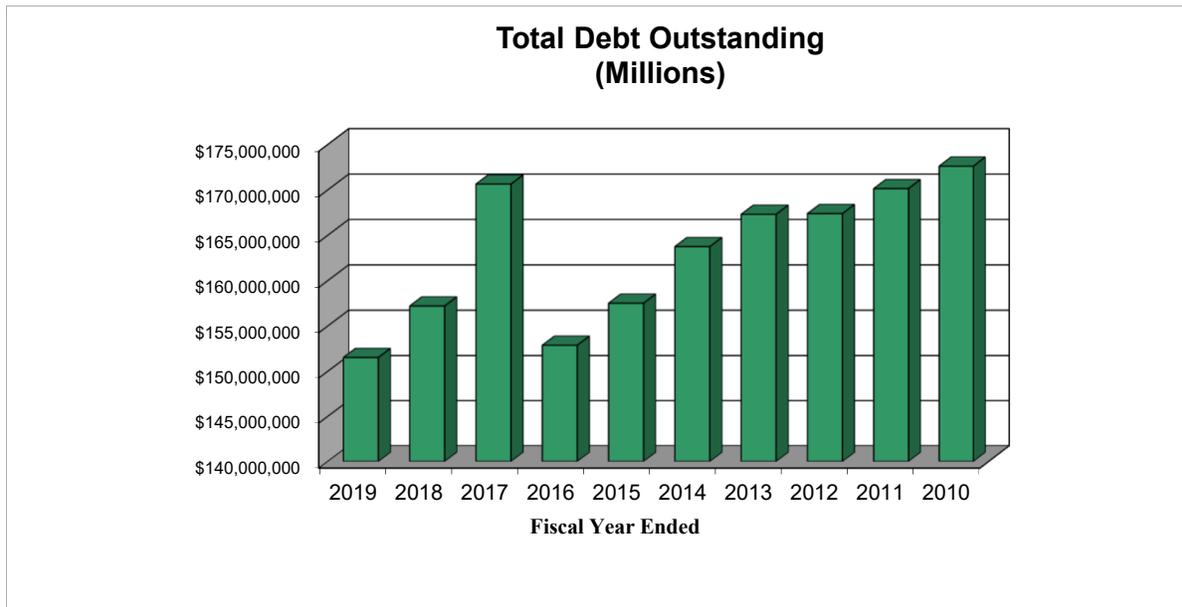
| Customer | 2010 | | | 2019 | | |
|-------------------------------------|-----------------------|-----------------------------------|--------------|-----------------------|-----------------------------------|--------------|
| | Total Annual Revenue* | Percent of 2010 Operating Revenue | 2010 Ranking | Total Annual Revenue* | Percent of 2019 Operating Revenue | 2019 Ranking |
| Spartanburg Regional Medical Center | \$ 336,312 | 1.76% | 2 | \$ 639,138 | 2.35% | 1 |
| Pet Inc Dairy Div | 242,456 | 1.27% | 4 | 359,260 | 1.32% | 2 |
| Wofford College | 180,840 | 0.95% | 7 | 262,599 | 0.97% | 3 |
| BASF Corp AP Dept | 157,512 | 0.82% | 10 | 230,010 | 0.85% | 4 |
| Spartanburg Housing Authority | 341,587 | 1.79% | 1 | 217,703 | 0.80% | 5 |
| Michelin Tire Corp | | | | 213,616 | 0.79% | 6 |
| Contec Inc | | | | 198,916 | 0.73% | 7 |
| Blackman Uhler MFG Co | 286,931 | 1.50% | 3 | 192,927 | 0.71% | 8 |
| Parkside at Laurel West LLC | | | | 133,063 | 0.49% | 9 |
| SC Dept of Correction | | | | 130,641 | 0.48% | 10 |
| Milliken & Company | 213,200 | 1.12% | 5 | | - | |
| Tietex International | 195,196 | 1.02% | 6 | | - | |
| Spartanburg County | 179,691 | 0.94% | 8 | | - | |
| NRRC LLC | 175,529 | 0.92% | 9 | | | |
| | <u>\$ 2,309,254</u> | <u>12.09%</u> | | <u>\$ 2,577,873</u> | <u>9.51%</u> | |

Debt Capacity

Debt Outstanding

FY 2010 to FY 2019

| Fiscal Year | General Obligation Bonds | Revenue Bonds | State Revolving Fund Loans | Bond Anticipation Note | Total Debt Outstanding | Per Capita* | As Share of Personal Income |
|-----------------|--------------------------|---------------|----------------------------|------------------------|------------------------|-------------|-----------------------------|
| 2019 | \$ 40,287,000 | \$111,165,000 | \$ 71,259 | \$ - | \$151,523,259 | \$ 483 | 1.12% |
| 2018 (Restated) | 42,027,000 | 115,045,000 | 126,845 | - | 157,198,845 | 537 | 1.36% |
| 2017 (Restated) | 44,799,229 | 125,657,109 | 181,197 | - | 170,637,535 | 543 | 1.40% |
| 2016 | 30,470,117 | 129,637,081 | 234,343 | 250,000 | 152,871,343 | 540 | 1.61% |
| 2015 (Restated) | 31,832,173 | 133,511,661 | 286,310 | - | 157,508,310 | 594 | 1.70% |
| 2014 | 24,255,865 | 139,154,093 | 337,124 | - | 163,747,082 | 607 | 1.73% |
| 2013 (Restated) | 21,691,429 | 145,226,728 | 386,812 | - | 167,304,969 | 608 | 1.81% |
| 2012 | 23,283,791 | 143,669,145 | 435,396 | - | 167,388,332 | 596 | 1.87% |
| 2011 | 24,866,154 | 134,725,553 | 481,534 | 10,068,000 | 170,141,241 | 593 | 2.67% |
| 2010 | 25,650,000 | 136,118,725 | 524,892 | 10,318,000 | 172,611,617 | 607 | 2.06% |



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

Ratios of General Bonded Debt Outstanding**FY 2010 to FY 2019**

| Fiscal Year | General Obligation Bonds (1) | Percentage of Taxable Market Value (2) | Per Capita* (3) |
|-----------------|------------------------------|--|-----------------|
| 2019 | \$ 40,287,000 | 0.33% | \$ 128 |
| 2018 (Restated) | 42,027,000 | 0.33% | 137 |
| 2017 (Restated) | 44,799,229 | 0.37% | 149 |
| 2016 | 30,470,117 | 0.25% | 102 |
| 2015 (Restated) | 31,832,173 | 0.26% | 108 |
| 2014 | 24,255,865 | 0.20% | 83 |
| 2013 (Restated) | 21,691,429 | 0.19% | 75 |
| 2012 | 23,283,791 | 0.19% | 81 |
| 2011 | 24,866,154 | 0.20% | 87 |
| 2010 | 25,650,000 | 0.20% | 89 |

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

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

Legal Debt Margin**June 30, 2019**

| | |
|---|-----------------------|
| Assessed Valuation | |
| Latest assessed valuation less manufacturing depreciation reduction | <u>\$ 708,139,488</u> |
| Legal Debt Limit - 8% of assessed valuation | \$ 56,651,159 |
| Amount of Debt Applicable to Debt Limit: | |
| General obligation bonds outstanding June 30, 2019 | <u>40,287,000</u> |
| Legal Debt Margin* | <u>\$ 16,364,159</u> |

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

Ten Year Data

| Fiscal Year | Debt Limit | Net Debt Subject to Limit | Legal Debt Margin | Outstanding Net Debt/ Debt Ceiling | Legal Debt Margin/ Debt Ceiling |
|-------------|---------------|---------------------------|-------------------|------------------------------------|---------------------------------|
| 2019 | \$ 56,651,159 | \$ 40,287,000 | \$ 16,364,159 | 71.11% | 28.89% |
| 2018 | 53,929,494 | 42,027,000 | 11,902,494 | 77.93% | 22.07% |
| 2017 | 51,385,537 | 43,712,000 | 7,673,537 | 85.07% | 14.93% |
| 2016 | 46,728,334 | 29,982,000 | 16,746,334 | 64.16% | 35.84% |
| 2015 | 47,815,961 | 31,287,000 | 16,528,961 | 65.43% | 34.57% |
| 2014 | 48,852,088 | 23,860,000 | 24,992,088 | 48.84% | 51.16% |
| 2013 | 49,480,747 | 21,025,000 | 28,455,747 | 42.49% | 57.51% |
| 2012 | 44,831,116 | 22,560,000 | 22,271,116 | 50.32% | 49.68% |
| 2011 | 48,816,244 | 24,085,000 | 24,731,244 | 49.34% | 50.66% |
| 2010 | 48,234,912 | 25,650,000 | 22,584,912 | 53.18% | 46.82% |
| 2009 | 47,160,729 | 27,320,000 | 19,840,729 | 57.93% | 42.07% |

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

| | 2010 | 2011 | 2012 | 2013 (Restated) | 2014 | 2015 (Restated) | 2016 | 2017 (Restated) | 2018 (Restated) | 2019 |
|---|----------------------|----------------------|----------------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Net Income | | | | | | | | | | |
| Operating revenues | \$ 19,110,224 | \$ 19,231,338 | \$ 20,939,211 | \$ 21,590,054 | \$ 21,666,380 | \$ 21,416,584 | \$ 24,204,021 | \$ 26,330,277 | \$ 26,118,922 | \$ 27,146,609 |
| Operating expenses before depreciation and amortization | (11,587,195) | (12,088,292) | (12,455,467) | (13,228,455) | (15,624,500) | (13,862,028) | (14,147,144) | (14,523,095) | (14,501,673) | (15,887,314) |
| Operating income before depreciation and amortization | 7,523,029 | 7,143,046 | 8,483,744 | 8,361,599 | 6,041,880 | 7,554,556 | 10,056,877 | 11,807,182 | 11,617,249 | 11,259,295 |
| Depreciation | (8,422,590) | (8,512,687) | (8,660,842) | (8,950,903) | (9,225,118) | (9,640,858) | (10,095,657) | (10,371,935) | (10,213,381) | (10,421,350) |
| Amortization of bond cost | (152,879) | (130,265) | (130,235) | (130,235) | - | - | - | - | - | - |
| Operating Income (Loss) | (1,052,440) | (1,499,906) | (307,333) | (589,304) | (3,183,238) | (2,086,302) | (38,780) | 1,435,247 | 1,403,868 | 837,945 |
| Nonoperating Revenues | 4,613,814 | 4,603,660 | 4,585,212 | 4,645,343 | 4,795,266 | 4,933,591 | 5,024,690 | 6,038,111 | 6,340,946 | 6,783,557 |
| Ad valorem taxes | 400,887 | 245,214 | 257,594 | 398,637 | 279,639 | 391,386 | 624,630 | 778,754 | 1,088,175 | 1,350,608 |
| Other nonoperating revenues | (7,487,656) | (7,786,473) | (7,617,613) | (7,546,465) | (6,916,202) | (6,878,900) | (6,611,994) | (7,060,716) | (6,716,137) | (6,738,350) |
| Capital Contributions | 2,218,665 | 698,675 | 1,148,652 | 1,479,036 | 1,222,135 | 2,475,057 | 3,334,211 | 3,678,468 | 2,116,851 | 1,983,221 |
| Net Income (Loss) Per Financial Statements | \$ (1,306,730) | \$ (3,738,830) | \$ (1,933,498) | \$ (1,652,753) | \$ (3,802,400) | \$ (1,165,168) | \$ 2,332,757 | \$ 4,869,864 | \$ 3,447,340 | \$ 4,216,981 |
| Net Income (Loss) Per Financial Statements | \$ (1,306,730) | \$ (3,738,830) | \$ (1,933,498) | \$ (1,652,753) | \$ (3,802,400) | \$ (1,165,168) | \$ 2,332,757 | \$ 4,869,864 | \$ 4,121,694 | \$ 4,216,981 |
| Less: (Gain) loss on sale of capital assets | (77,244) | (2,927) | (13,700) | (82,482) | (18,378) | 6,931 | (69,992) | (106,302) | (150,414) | (79,784) |
| Less: Restricted investment income | (55,630) | (9,351) | (6,617) | (3,030) | (2,351) | (18,522) | (29,724) | (157,282) | (270,665) | (309,654) |
| Less: Capital Contributions | (2,218,665) | (698,675) | (1,148,652) | (1,479,036) | (1,222,135) | (2,475,057) | (3,334,211) | (3,678,468) | (2,004,843) | (1,983,221) |
| Less: Ad valorem used for GO debt service (1) | (2,720,539) | (2,637,456) | (2,213,339) | (1,932,803) | (1,432,388) | (1,783,899) | (1,854,135) | (2,967,750) | (3,219,960) | (3,215,995) |
| Less: Transfers into rate stabilization fund | (25,479) | (14,259) | (10,621) | (5,985) | (5,985) | (7,918) | (14,647) | (251,016) | (937,209) | (85,190) |
| Plus: Transfers out of rate stabilization fund | 885,000 | 1,000,000 | - | (208,892) | 450,000 | 800,000 | 385,000 | - | - | - |
| Plus: Excess transfers in over out | - | - | 10,621 | 208,892 | - | - | - | 251,016 | 937,209 | 85,150 |
| Plus: Depreciation | 8,422,590 | 8,512,687 | 8,660,842 | 8,950,903 | 9,225,118 | 9,640,858 | 10,095,657 | 10,371,935 | 10,213,381 | 10,421,350 |
| Plus: Interest expense | 7,472,459 | 7,769,937 | 7,597,710 | 7,181,236 | 6,796,362 | 6,314,603 | 6,611,994 | 6,842,545 | 6,716,137 | 6,738,350 |
| Plus: Amortization of bond cost | 152,879 | 130,265 | 130,235 | 130,235 | - | - | - | - | - | - |
| Plus: Bond issuance costs | - | - | - | 226,723 | - | 517,554 | - | 218,171 | - | - |
| Plus: Pension Adjustment | - | - | - | - | - | 74,972 | 74,908 | 226,865 | 292,681 | 1,057 |
| Plus: OPEB adjustment | - | - | - | - | - | - | - | - | (53,503) | (74,539) |
| Net Earnings per Revenue Bond Covenant | \$ 10,528,641 | \$ 10,311,391 | \$ 11,072,981 | \$ 11,208,748 | \$ 9,987,883 | \$ 11,904,354 | \$ 14,197,607 | \$ 15,619,578 | \$ 15,644,508 | \$ 15,714,545 |
| Debt Service Requiring Coverage, Per Covenant | | | | | | | | | | |
| Revenue Bond Debt Service | \$ 6,953,424 | \$ 7,066,293 | \$ 7,683,658 | \$ 7,614,245 | \$ 8,431,899 | \$ 9,394,938 | \$ 9,092,681 | \$ 9,090,061 | \$ 9,043,103 | \$ 9,049,389 |
| GO Bond Debt Service Paid with Revenues (1) | 304,323 | 294,834 | 190,664 | 188,661 | - | - | - | - | - | - |
| Debt Service Covenant for Coverage Test | \$ 7,257,747 | \$ 7,361,127 | \$ 7,874,322 | \$ 7,802,906 | \$ 8,431,899 | \$ 9,394,938 | \$ 9,092,681 | \$ 9,090,061 | \$ 9,043,103 | \$ 9,049,389 |
| Debt Service Coverage Ratio Based on Revenue Bond Coverage (2) (4) | 1.45 | 1.40 | 1.41 | 1.44 | 1.18 | 1.27 | 1.56 | 1.72 | 1.73 | 1.74 |
| Total District Debt Service Coverage Calculation | | | | | | | | | | |
| Net Earnings per Revenue Bond Covenant | \$ 10,528,641 | \$ 10,311,391 | \$ 11,072,981 | \$ 11,208,748 | \$ 9,987,883 | \$ 11,904,354 | \$ 14,197,607 | \$ 15,619,578 | \$ 15,644,508 | \$ 15,714,545 |
| Plus: Ad valorem taxes used for GO debt service | 2,720,539 | 2,637,456 | 2,213,339 | 1,932,803 | 1,432,388 | 1,783,899 | 1,854,135 | 2,967,750 | 3,219,960 | 3,215,995 |
| Adjusted Net Earnings | \$ 13,249,180 | \$ 12,948,847 | \$ 13,286,320 | \$ 13,141,551 | \$ 11,420,271 | \$ 13,688,253 | \$ 16,051,742 | \$ 18,587,328 | \$ 18,864,469 | \$ 18,930,540 |
| Total District Debt Service | 9,978,286 | 9,998,583 | 10,087,661 | 10,242,527 | 10,243,396 | 10,085,583 | 10,946,816 | 12,067,811 | 12,263,063 | 12,265,384 |
| Total District Debt Service Coverage (3), (4) | 1.33 | 1.30 | 1.32 | 1.30 | 1.11 | 1.36 | 1.47 | 1.54 | 1.54 | 1.54 |

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

Demographic and Economic Information

Spartanburg County Demographic Statistics

CY 2009 to CY 2018

| Calendar Year | (1) | Personal Income (1) | | (3) | (4) | (5) |
|------------------|----------------------|---------------------|---------------|---------------|----------------------|----------------------|
| | July 1 Population | Total | Per Capita | Median Age | School Enrollment | Unemployment Rate |
| 2018 | 313,888 | \$13,543,549,000 | \$ 43,148 | 37.8 | 50,706 | 3.1% |
| 2017 | 306,854 | 11,873,558,000 | 39,386 | 38.2 | 46,385 | 3.7% |
| 2016 | 301,463 | 11,501,469,000 | 38,686 * | 38.5 | 47,825 | 3.4% |
| 2015 | 297,302 | 10,738,530,000 | 33,600 * | 38.4 | 47,298 | 5.8% |
| 2014 | 293,542 | 10,252,621,000 * | 34,946 * | 38.5 | 47,306 | 6.4% |
| 2013 | 290,969 | 10,033,000,000 * | 35,040 | 38.5 | 46,846 | 7.3% |
| 2012 | 288,745 | 9,819,000,000 | 33,518 | 35.5 | 44,174 | 8.8% |
| 2011 | 286,236 | 9,241,000,000 | 31,873 | 38.1 | 42,552 | 9.5% |
| 2010 | 284,307 | 8,959,000,000 | 22,230 | 37.7 | 44,398 | 11.7% |
| 2009 | 286,822 | 8,460,000,000 | 29,494 | 37.5 | 43,036 | 12.4% |

Data Sources:

(1) U.S. Census Bureau of Economic Analysis www.bea.gov (CA1-3) & 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>

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

Spartanburg County, South Carolina Major Employers and Changes FY 2019 & FY 2009

| Company Name | Employees and % of Workforce | |
|---------------------------------------|------------------------------|-------|
| | 2019 | 2009 |
| BMW Manufacturing Corporation | 11,000 | 5,400 |
| Spartanburg County Schools | 7,710 | 5,185 |
| Spartanburg Regional Medical Center | 7,500 | 4,607 |
| Milliken & Company | 4,007 | 1,100 |
| Michelin Tire Company | 3,435 | 952 |
| Adidas | 2,520 | N/A* |
| State of South Carolina | 2,083 | 2,387 |
| Spartanburg County | 1,622 | 1,678 |
| Draexlmaier Automotive of America LLC | 1,075 | N/A* |
| AFL Corporation | 858 | N/A* |
| Benore Logistics Systems | 800 | N/A* |
| Lear Corporation | 800 | N/A* |
| SEW - Eurodrive, Inc | 750 | N/A* |
| Inman Mills | 700 | N/A* |
| Spartanburg Steel | 618 | 601 |

Data Source:

Spartanburg County Economic Development Corporation and individual employers

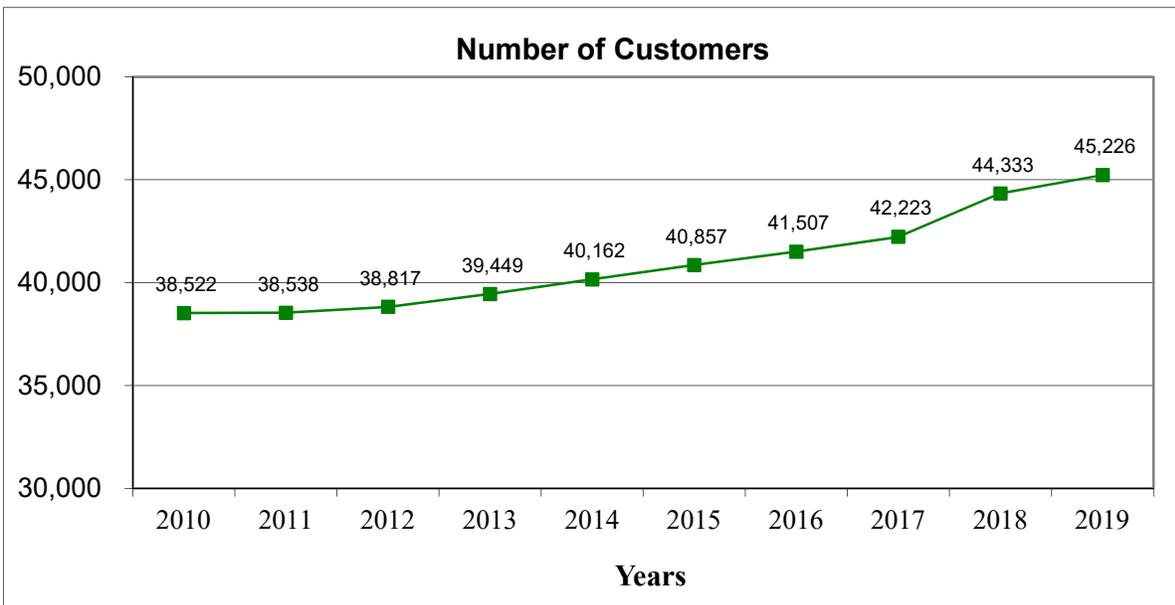
(N/A*) Data unavailable

Operating Information

Number of District Customers

FY 2010 to FY 2019

| Fiscal Year | Total Number of Customers |
|-------------|---------------------------|
| 2019 | 45,226 |
| 2018 | 44,333 |
| 2017 | 42,223 |
| 2016 | 41,507 |
| 2015 | 40,857 |
| 2014 | 40,162 |
| 2013 | 39,449 |
| 2012 | 38,817 |
| 2011 | 38,538 |
| 2010 | 38,522 |



Schedule of User Charges

FY 2019

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

Volume Charge (per 100 gallons)

| | | |
|-------------------------------------|----|--------------|
| Treatment and Transportation Charge | \$ | 0.483 |
| Collection Charge | \$ | 0.192 |
| | \$ | <u>0.675</u> |

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

Schedule of Capacity Fees

FY 2019

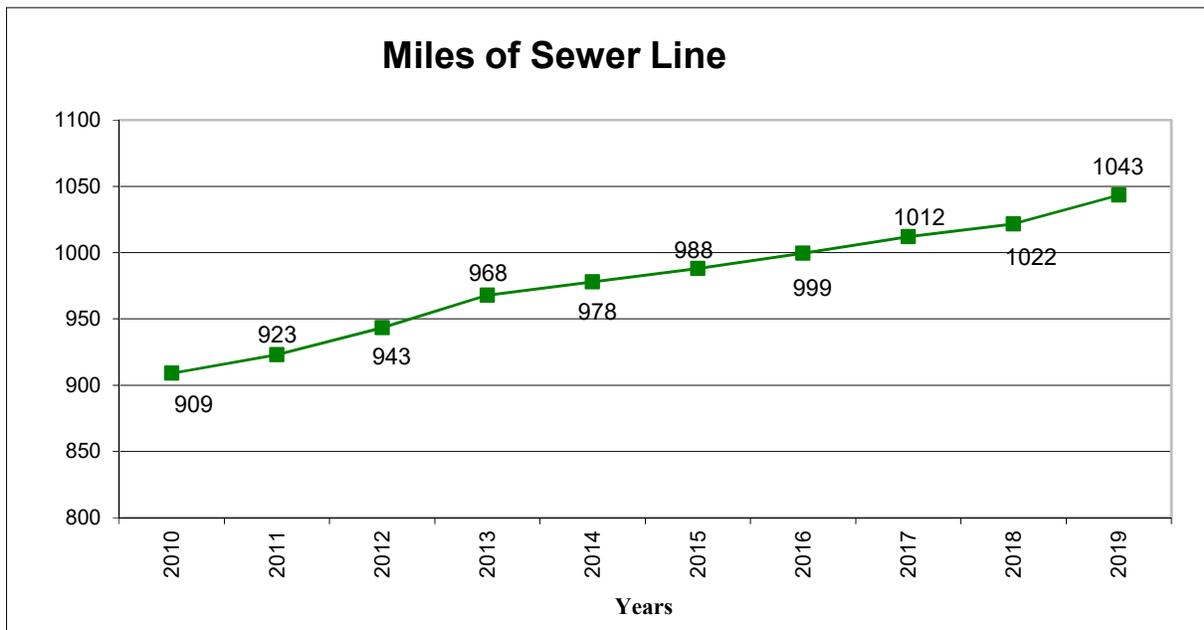
| REU (1) | Discharge Gallons per Day | Capacity Fee Rates(2) (\$) |
|---------|------------------------------|-------------------------------|
| 1 | 300 | 450 |
| 5 | 1,500 | 1,125 |
| 15 | 4,500 | 2,250 |
| 32 | 9,600 | 3,600 |
| 75 | 22,500 | 7,200 |
| 113 | 33,900 | 8,975 |
| 150 | 45,000 | 11,250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

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

Miles of Sewer Line

FY 2010 to FY 2019

| Fiscal Year | Miles of Sewer Line | Percent Increase |
|-------------|---------------------|------------------|
| 2010 | 909 | 0.60% |
| 2011 | 923 | 1.54% |
| 2012 | 943 | 2.20% |
| 2013 | 968 | 2.61% |
| 2014 | 978 | 1.04% |
| 2015 | 988 | 1.02% |
| 2016 | 999 | 1.16% |
| 2017 | 1012 | 1.25% |
| 2018 | 1022 | 0.95% |
| 2019 | 1043 | 2.14% |



Schedule of Treatment Plants**FY 2019**

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

Number of Employees

FY 2010 to FY 2019

| Fiscal Year | Number of Employees |
|-------------|---------------------|
| 2010 | 69 |
| 2011 | 69 |
| 2012 | 69 |
| 2013 | 69 |
| 2014 | 68 |
| 2015 | 70 |
| 2016 | 73 |
| 2017 | 76 |
| 2018 | 74 |
| 2019 | 74 |

