



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

I. INTRODUCTORY SECTION

SPARTANBURG WATER SYSTEM
SPARTANBURG, SOUTH CAROLINA

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

SUBMITTED BY:
FINANCE DEPARTMENT

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

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Spartanburg Water System Officials

List of Commissioners and Senior Management Staff

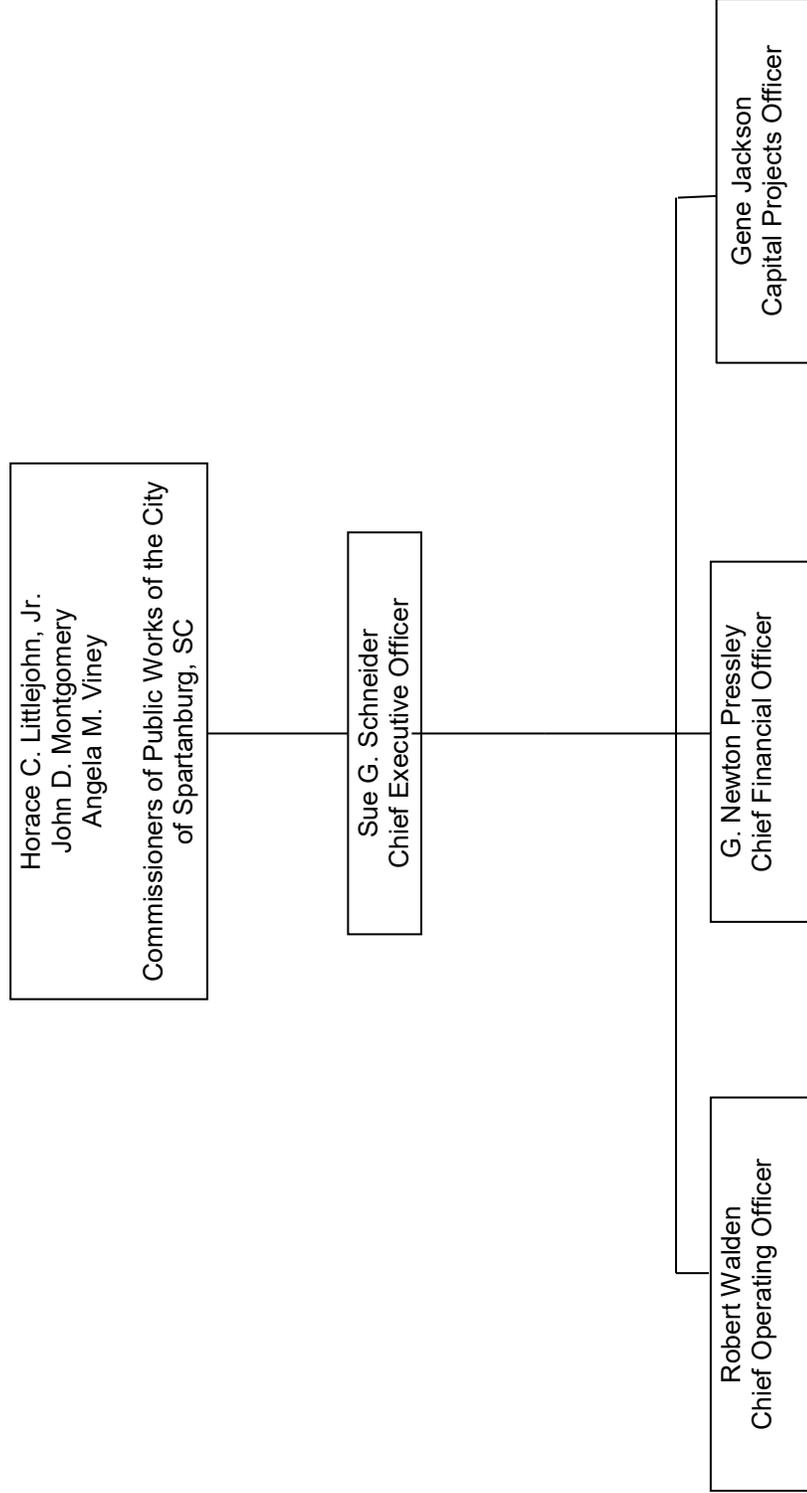
Commissioners

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

Senior Management Staff

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

Spartanburg Water System Organization Chart



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

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



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

Letter of Transmittal
December 2, 2019

To the Commissioners and Customers
of the Spartanburg Water System

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

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

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

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

PROFILE OF THE SYSTEM

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

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

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

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

LOCAL ECONOMY

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

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

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

FINANCIAL MANAGEMENT

The System adopts an annual operating budget for management and financial planning purposes. The System's computerized financial planning and rate-setting model is updated annually to provide for a five-year financial plan. Capital improvement plans, and applicable debt service projections for future bond issues, are incorporated in the financial planning process. The five-year plan is reviewed with the Commission, which adopts the budget and rates for the upcoming year only. The overall objective of the financial planning process is to minimize the impact of customer rate increases, while maintaining required debt service coverage. Other considerations of the financial planning process include: volume trends by customer class; maintaining sufficient fund balances to meet the System's operations, maintenance, and capital improvement needs; growth trends for various expenditure categories; and the comparison of customer rates to other utilities in the region.

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

The Red Flags Rule is federal legislation that requires government agencies, including utilities, to develop written, board-approved programs designed to detect, prevent, and mitigate identity theft. A written Red Flags Identity Theft Prevention Program was approved by the Commissioners on April 28, 2009; the program details the procedures implemented to verify the identity of applicants opening new accounts and to protect sensitive customer information such as social security numbers, bank account information, and credit card numbers. The Red Flags Rule program is monitored on an ongoing basis to ensure compliance with procedures and to provide training. The annual Red Flags Program report was provided at the June 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 System's cash management policy provides that available funds are invested overnight and longer-term in accordance with state law, which permits the following types of investments: obligations of the United States and its agencies, general obligations of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit collaterally secured, repurchase agreements secured by the foregoing obligations, and the State Treasurer's Investment Pool. For more information regarding the June 30, 2019 investment distribution, see Note 2 to the Financial Statements.

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

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

FINANCIAL CONDITION

The increase in net position for fiscal year 2019 was \$7,978,746, a 12.6% increase for the fiscal year. The customer base increased by 983 accounts, or 1.6%, for fiscal year 2019. The average annual growth rate over the past five years was 1.2%. The System's revenue bond covenants require debt service coverage of 110% for Revenue Bonds. The debt service coverage ratio was 182% for fiscal year 2019. A recent rate survey of comparable utilities in the region indicated that the System's customer rates compared favorably with the majority of the agencies in the survey.

Various funds are maintained to meet the operational, maintenance, and capital improvement needs of the system. The Depreciation Fund provides for the renovation and replacement of operational equipment and system facilities and has been adequately funded in recent years; this fund had a June 30, 2019 balance of \$9,894,943.

AWARDS

Spartanburg Water 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 Water System 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 System employees.

Respectfully Submitted,



Sue G. Schneider
Chief Executive Officer



G. Newton Pressley
Chief Financial Officer



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Spartanburg Water System
South Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morill

Executive Director/CEO

II. FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Spartanburg Water System 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.

Emphasis-of-Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of the System's proportionate share of the collective net pension liability and employer contributions 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 basic financial statements that collectively comprise the Spartanburg Water System'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 statement 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, Schwantz, Halliday & Co.

Spartanburg, South Carolina
December 2, 2019

Spartanburg Water System Management's Discussion and Analysis

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

Financial Highlights

As of June 30, 2019, total assets of \$269,533,668 and deferred outflows of resources of \$9,745,929 exceeded total liabilities of \$207,716,869 and deferred inflows of resources of \$287,706 by \$71,275,022. For the fiscal year 2018, total assets of \$268,244,084 and deferred outflows of resources of \$10,783,609 exceeded total liabilities of \$215,605,307 and deferred inflows of resources of \$126,110 by \$63,296,276.

For the fiscal year ended June 30, 2019, the increase in net position, before capital contributions, was \$6,788,203. The System's increase in net position, after capital contributions of \$1,190,543, was \$7,978,746. For the fiscal year 2018, the increase in net position, before capital contributions, was \$5,302,621. The System's increase in net position, after capital contributions of \$676,992, was \$5,979,613.

For fiscal year 2019, operating revenues increased by \$1,416,679 to \$42,272,030 or 3.5%, nonoperating revenues increased by \$1,278,591 to \$6,259,652 or 25.7%, and total expenses increased by \$1,209,688 to \$41,743,479 or 3.0%. For fiscal year 2018, operating revenues decreased by \$1,366,118 to \$40,855,351 or 3.2%. Nonoperating revenues increased by \$747,269 to \$4,981,061 or 17.7%. Total expenses increased by \$347,042 to \$40,533,791 or 0.9%.

The System's revenue bond covenants require debt service coverage of 110% for all revenue bonds. The fiscal year 2019 total system revenue bond debt service coverage ratio was 182%. The fiscal year 2018 total system revenue bond debt service coverage ratio was 186%.

Overview of the Financial Statements

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

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

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

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

Financial Analysis of the System

The Condensed Statements of Net Position are provided below as a summary of Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position for the years ended June 30, 2019, 2018 and 2017. The largest portion of the System's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding.

Condensed Statements of Net Position

	2019	2018 Restated	2017
Assets			
Current and Noncurrent Assets	\$ 73,026,989	\$ 70,577,100	\$ 58,745,977
Capital Assets	196,506,679	197,666,984	196,477,686
Total Assets	\$ 269,533,668	\$ 268,244,084	\$ 255,223,663
Deferred Outflows of Resources			
Deferred loss on refundings	\$ 5,290,010	\$ 5,733,143	\$ 4,050,096
Deferred amounts related to Pension	3,143,789	3,797,289	3,527,111
Deferred amounts related to OPEB	1,312,130	1,253,177	-
Total Deferred Outflows of Resources	\$ 9,745,929	\$ 10,783,609	\$ 7,577,207
Liabilities			
Current Liabilities	\$ 13,312,095	\$ 14,173,232	\$ 13,753,461
Noncurrent Liabilities	194,404,774	201,432,075	181,700,803
Total Liabilities	\$ 207,716,869	\$ 215,605,307	\$ 195,454,264
Deferred Inflows of Resources			
Deferred amounts related to Pension	\$ 284,356	\$ 126,110	\$ -
Deferred amounts related to OPEB	3,350	-	-
	\$ 287,706	\$ 126,110	\$ -
Net Position			
Net Investment in Capital Assets	\$ 75,359,394	\$ 71,738,818	\$ 76,099,078
Unrestricted	(4,084,372)	(8,442,542)	(8,752,472)
Total Net Position	\$ 71,275,022	\$ 63,296,276	\$ 67,346,606

In fiscal year 2019, current and noncurrent assets increased by \$2,449,889 to \$73,026,989, due to an increase in unrestricted investments, other receivables, and inventories offset by a decrease in restricted and unrestricted cash, accounts receivable-net of allowance for doubtful accounts, and restricted investments. In fiscal year 2018, current and noncurrent assets increased by \$11,831,123 to \$70,577,100, due to an increase in restricted and unrestricted investments offset by a decrease in restricted and unrestricted cash, accounts receivable – net of allowance for doubtful accounts, and inventories.

Capital assets decreased by \$1,160,305 to \$196,506,679 in fiscal year 2019 and increased by \$1,189,298 to \$197,666,984 in fiscal year 2018. See Capital Assets section on page 9 for further explanation.

Current and noncurrent assets included cash and investments of \$65,296,487. The distribution by fund of the year-end balances for fiscal years 2019 and 2018 is provided on the following page:

Fund	<u>2019</u>	<u>2018</u>
Operating	\$ 7,343,158	\$ 5,680,263
Debt Service Trust Account	8,041,492	8,310,984
Rate Stabilization	3,226,134	3,639,849
Depreciation	9,894,943	8,171,629
Capital Project Funds		
Capital	3,908,286	1,931,998
Water Line Repair/Replacement	3,373,417	3,621,835
Bond Funds	29,509,057	31,150,711
Total Cash and Investments	<u>\$ 65,296,487</u>	<u>\$ 62,507,269</u>

Current and noncurrent assets also included receivables of \$6,117,930, with the substantial portion associated with customer accounts receivable, net of allowance for doubtful accounts, of \$5,158,710 and the intercompany receivable from Spartanburg Sanitary Sewer District of \$943,839. This is compared to the fiscal year 2018 receivables of \$6,494,598 with the substantial portion associated with customer accounts receivable, net of allowance for doubtful accounts, of \$5,583,199, and intercompany receivable from Spartanburg Sanitary Sewer District of \$895,852.

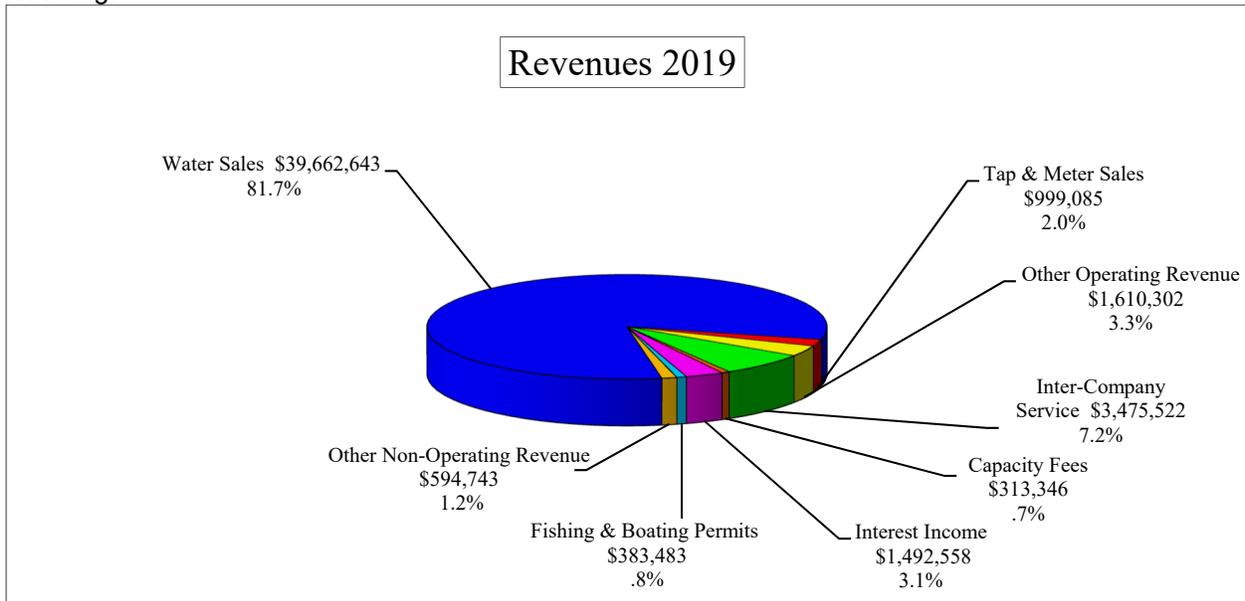
Current liabilities as of June 30, 2019 included accounts payable from operating funds of \$626,753, accounts payable from capital funds of \$577,755, and retainage payable of \$29,670. Current liabilities as of June 30, 2018 included accounts payable from operating funds of \$667,022, accounts payable from capital funds of \$858,564, and retainage payable of \$429,325. The current portion of long-term debt totaled \$6,250,000 and \$6,135,000 at June 30, 2019 and 2018, respectively.

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

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2019</u>	<u>2018 Restated</u>	<u>2017</u>
Revenues			
Operating Revenues			
Water Sales	\$ 39,662,643	\$ 38,622,915	\$ 40,183,098
Tap & Meter Sales	999,085	715,805	603,515
Other Operating Revenues	1,610,302	1,516,631	1,434,856
	<u>42,272,030</u>	<u>40,855,351</u>	<u>42,221,469</u>
Nonoperating Revenues			
Intercompany Services	3,475,522	3,189,295	3,011,119
Other Nonoperating Revenues	2,784,130	1,791,766	1,222,673
	<u>6,259,652</u>	<u>4,981,061</u>	<u>4,233,792</u>
Total Revenues	<u>48,531,682</u>	<u>45,836,412</u>	<u>46,455,261</u>
Expenses			
Operating Expenses, Before Depreciation	26,494,111	25,633,608	23,516,057
Depreciation Expense	8,333,554	7,915,554	7,872,092
Nonoperating Expenses	6,915,814	6,984,629	8,798,600
Total Expenses	<u>41,743,479</u>	<u>40,533,791</u>	<u>40,186,749</u>
Excess, Before Capital Contributions	6,788,203	5,302,621	6,268,512
Capital Contributions	1,190,543	676,992	923,529
Change in Net Position	7,978,746	5,979,613	7,192,041
Net Position, Beginning of Year-Restated (2018)	<u>63,296,276</u>	<u>57,316,663</u>	<u>60,154,565</u>
Net Position, End of Year	<u>\$ 71,275,022</u>	<u>\$ 63,296,276</u>	<u>\$ 67,346,606</u>

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



Water sales were comprised of metered volume charges of \$31,042,512, base charges of \$8,460,756, and other miscellaneous billings of \$159,375. Water sales increased by \$1,039,728 or 2.7%. Volume charges increased by 2.9%, resulting from a 3.2% volume rate increase that was effective August 1, 2018.

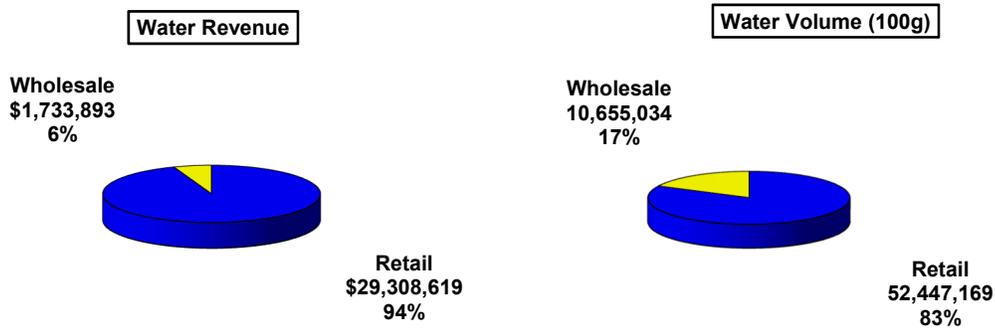
- The billed volume for fiscal year 2019 was 63,102,203 (100 gallons), a decrease of 2,032,945 or 3.1%, from fiscal year 2018, as a result of decreased irrigation use due to increased rainfall. The billed volume for fiscal year 2018 was 65,135,148 (100 gallons), a decrease of 1,578,715 or 2.4%, over fiscal year 2017 primarily due to a decrease in irrigation use. The change in billed volume for fiscal years 2019 and 2018 was distributed among the following customer classes:

	<u>FY18 to FY19</u>	<u>% of</u>	<u>FY17 to FY18</u>	<u>% of</u>
	<u>Incr./((Decr.) (100g)</u>	<u>Incr./((Decr.)</u>	<u>Incr./((Decr.) (100g)</u>	<u>Incr./((Decr.)</u>
Retail				
Residential	(623,466)	-2.0%	(447,645)	-1.4%
Commercial	(152,829)	-1.1%	(493,495)	-3.3%
Industrial	(364,929)	-4.4%	(201,207)	-2.4%
Total Retail	<u>(1,141,224)</u>	<u>-7.5%</u>	<u>(1,142,347)</u>	<u>-7.1%</u>
Wholesale	(891,721)	-7.7%	(436,368)	-3.6%
System Total	<u><u>(2,032,945)</u></u>	<u><u>-3.1%</u></u>	<u><u>(1,578,715)</u></u>	<u><u>-2.4%</u></u>

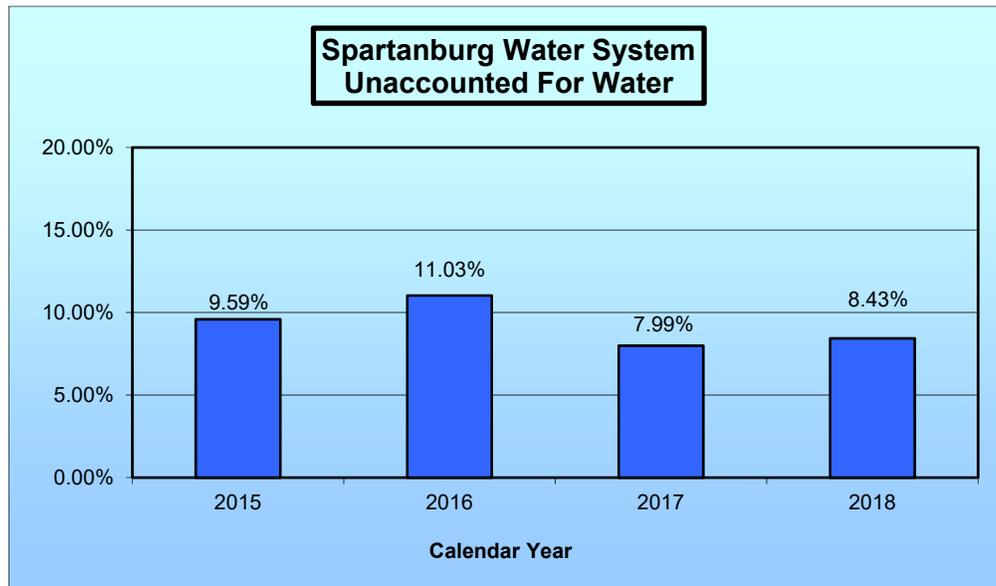
Base charge revenue for fiscal year 2019 increased by \$117,352 over fiscal year 2018, resulting from the growth in the residential customer base. The increase from fiscal year 2018 over fiscal year 2017 was \$259,423.

Fiscal year 2019 volume charges are further analyzed by the following charts:

Fiscal Year 2019 Metered Volume Charges – Revenue vs. Volume



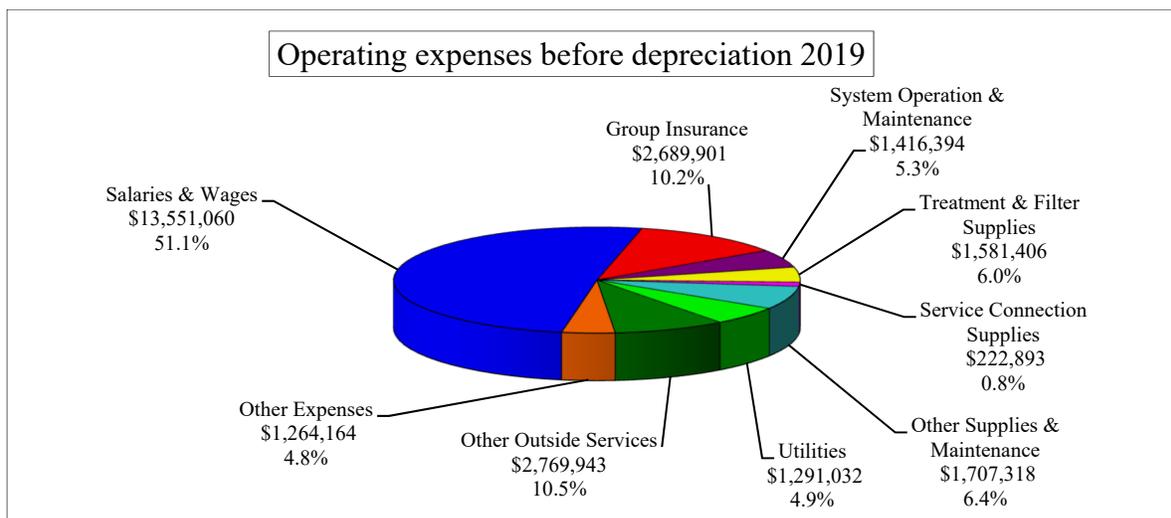
The System maintains a comprehensive tracking program to monitor Unaccounted for Water, as reflected graphically, by calendar year.



In fiscal year 2019, other nonoperating revenue increased by \$992,364, due to an increase in capacity fees of \$18,571, interest income of \$961,795, miscellaneous income of \$49,743, and administrative income of \$35,928, offset by a decrease in lake revenue of \$26,895 and gain on sale of capital assets of \$46,778. In fiscal year 2018, other nonoperating revenue increased by \$569,093, due to an increase in capacity fees of \$21,010, lake revenue of \$47,244, interest income of \$448,438, miscellaneous income of \$36,980, and administrative income of \$44,629, offset by a decrease in gain on sale of capital assets of \$29,208.

The intercompany reimbursement from Spartanburg Sanitary Sewer District was comprised of the following types of intercompany services: billing and collection, administrative and financial, engineering, fleet maintenance, field maintenance, and facility allocations for maintenance and the lab. The increase in 2019 was primarily due to the full year of monthly billing and increased staff for Customer Service and Field Services.

Operating expenses before depreciation were comprised of the following:



The following table provides a comparison of 2019, 2018 and 2017 operating expenses before depreciation for major expense categories.

Comparison of operating expenses before depreciation

Expense Category			Increase / (Decrease)	
	2019	2018	Amount	% of Change
Salaries and wages	\$13,551,060	\$13,325,304	\$225,756	1.7%
Group insurance	2,689,901	2,942,182	(252,281)	-8.6%
System operation and maint.	1,416,394	1,245,874	170,520	13.7%
Treatment and filter supplies	1,581,406	1,908,252	(326,846)	-17.1%
Service connection supplies	222,893	271,847	(48,954)	-18.0%
Other supplies and maintenance	1,707,318	1,512,231	195,087	12.9%
Utilities	1,291,032	1,238,852	52,180	4.2%
Other outside services	2,769,943	2,098,291	671,652	32.0%
Other expenses	1,264,164	1,090,775	173,389	15.9%
Total operating expenses before depreciation	\$26,494,111	\$25,633,608	\$860,503	3.4%

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

Operating expenses before depreciation increased by \$860,503 or 3.4% from fiscal year 2019 to 2018. The increase was \$2,117,551 or 9.0%, from fiscal year 2018 to fiscal year 2017, primarily due to an increase in treatment and filter supplies, service connection supplies, group insurance and system operations and maintenance. Highlights of the 2019 – 2018 expense comparison are provided below:

- The Group Insurance decrease resulted from an favorable claim experience for fiscal year 2019.
- The System Operations and Maintenance line item includes supply cost and contracted maintenance applicable to the water filtration plants and distribution system. The increase is primarily the result of costs associated with line breaks and repairs during fiscal year 2019.
- The Treatment and Filter Supplies decrease was due to reduced demand for water quality requirements and a substantial decrease in water flows.
- The variance in Other Supplies and Maintenance is primarily the result of an increase in Building & Grounds Maintenance offset by a decrease in Printing and Office Supplies.
- The variance in Other Outside Services was associated with the increase in Legal and Other Outside Services, due to payment processing costs for monthly billing and other outside lab monitoring costs.
- The increase in Other Expenses is associated with the increase in Public Relations and Information and Worker's Comp Insurance.
- The other line items reflected no significant change in the comparison of fiscal year 2019 to fiscal year 2018.

Nonoperating expenses decreased by \$68,815 or 1.0%, due to the decrease in bond issuance costs of \$467,731 offset by the increase in payments to other governmental units of \$21,000 and interest and paying agent fees of \$377,916.

Capital Contributions:

The System receives contributions from developers in the form of cash payments and donated lines; and occasionally, contributions from federal/state agencies in the form of grants for capital projects. Accounting principles generally accepted by the United States of America require that these contributions be reflected as a revenue source on the Statements of Revenues, Expenses and Changes in Net Position. Capital contributions for fiscal year 2019 totaled \$1,190,543 and were comprised of donated lines of \$805,620 and cash payments of \$384,923. Capital contributions for fiscal year 2018 totaled \$676,992 and were comprised of donated lines of \$412,150 and cash payments of \$264,842. The capital contributions received in cash were comprised of participation fees and miscellaneous project contributions.

Capital Assets

At June 30, 2019, the System had \$196,506,679 invested in capital assets, as provided in the following schedule:

Capital Assets at Year-End

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Transmission, Distribution and Treatment Facilities	\$ 177,908,923	\$ 180,354,508	\$ 181,686,308
Other Facilities & Property	5,685,113	5,157,501	5,106,039
Vehicles, Office & Maintenance Equipment	5,237,025	6,581,141	6,673,708
Construction in Progress	<u>7,675,618</u>	<u>5,573,834</u>	<u>3,011,631</u>
Capital Assets - Net of Accumulated Depreciation	<u>\$ 196,506,679</u>	<u>\$ 197,666,984</u>	<u>\$ 196,477,686</u>

Significant changes for Capital Assets during fiscal year 2019 included a net decrease in Transmission, Distribution and Treatment Facilities. The additions of \$805,620 in donated lines, various waterline extensions and rehab of \$764,096 and R.B. Simms Continuous Sludge Removal of \$433,564; capitalized labor, storage tank rehab and various distribution system improvements were offset by an increase in current year depreciation expense.

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

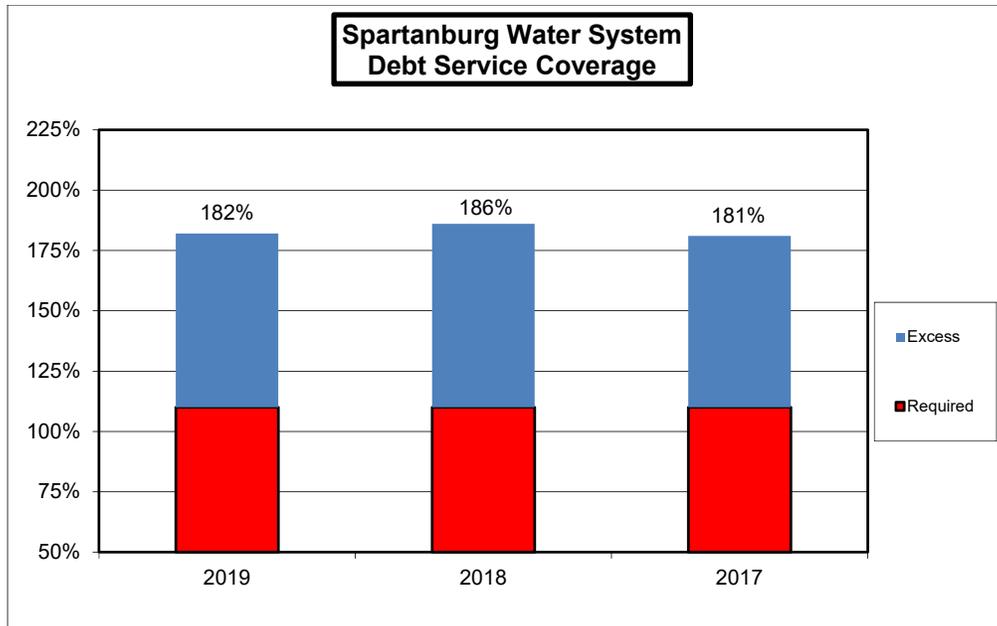
For more information on changes in capital assets, see Note 4 to the financial statements.

Debt Administration

Debt Service Coverage

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

Debt Service Coverage	<u>2019</u>	<u>2018 Restated</u>	<u>2017</u>
Net Earnings per Revenue Bond Covenant	\$ 21,806,853	\$ 20,651,829	\$ 23,533,592
Revenue Bond Debt Service	11,990,692	11,118,019	12,997,256
Revenue Bond Debt Service Coverage	1.82	1.86	1.81



Outstanding Debt at Year-End

The System had \$157,590,000 in long-term revenue bond debt outstanding at year-end, as scheduled below:

	Average Yield	Outstanding Debt		
		2019	2018	2017
Long-term Debt				
2007B Water System Revenue Bond	4.39%	\$ -	\$ -	\$ 4,180,000
2009 Water System Revenue Bond	4.97%	-	-	33,935,000
2012 Water System Revenue Bond	2.23%	4,695,000	5,205,000	5,700,000
2013 Water System Revenue Bond	4.62%	27,255,000	27,255,000	27,255,000
2015A Water System Refunding Revenue Bond	3.40%	26,085,000	26,085,000	26,085,000
2015B Water System Refunding Revenue Bond	3.40%	4,470,000	5,090,000	5,700,000
2017A Water System Refunding Revenue Bond	1.75%	49,155,000	54,160,000	59,080,000
2017B Water System Refunding Revenue Bond	2.90%	45,930,000	45,930,000	-
Total Debt Outstanding		\$ 157,590,000	\$ 163,725,000	\$ 161,935,000

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

Bond Ratings

Based on the System's continued trend of strong financial performance, management proactively reached out to Moody's and asked for an updated rating. Moody upgraded the System from Aa3 to Aa2 in February 2019.

Agency	Revenue
Standard & Poor's	AA
Moody's	Aa2

Financial Planning

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

The System Commission approved a balanced Annual Operating Budget for fiscal year 2020 in the total amount of \$47,362,508, which represents a 2.1% increase over the previous year's budgeted revenues and expenditures. The approved budget included funding of reserves for the Depreciation Fund - \$1,900,000, Capital Fund - \$1,000,000, Meter/Endpoint Fund - \$665,000 and the Distribution System Rehab Fund - \$1,000,000.

Other Significant Matters

- **Replacement of Aging Infrastructure**
The System has enhanced efforts to address aging water mains. Various water main replacement projects were completed by the Maintenance Department and outside contractors during fiscal year 2019, with ongoing projects captured in the Construction in Progress.
- **Monthly Billing**
Spartanburg Water System and Sanitary Sewer District introduced monthly billing in February 2018. Most customers were previously billed on a bimonthly basis. Monthly billing provides various benefits to customers: more efficient household budgeting, timely water usage information, and earlier detection of water leaks. Monthly billing represents the more typical billing method utilized in the water/sewer industry.

Requests for Information

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

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

SPARTANBURG WATER SYSTEM
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2019	Restated 2018
Assets		
Current assets		
Cash	\$ 1,746,979	\$ 3,027,686
Investments	24,472,868	18,572,157
Accounts receivable - net of allowance for doubtful accounts of \$200,099 and \$176,994 as of 2019 and 2018, respectively	5,158,710	5,583,199
Loans receivable	15,381	15,547
Other receivables	943,839	895,852
Inventories	1,612,572	1,575,233
Total current assets	33,950,349	29,669,674
Noncurrent assets		
Restricted cash	1,727,742	1,921,170
Restricted investments	37,348,898	38,986,256
Capital assets - nondepreciable	9,630,607	6,694,568
Capital assets - net of accumulated depreciation	186,876,072	190,972,416
Total noncurrent assets	235,583,319	238,574,410
Total Assets	269,533,668	268,244,084
Deferred Outflows of Resources		
Deferred loss on refundings	5,290,010	5,733,143
Deferred amounts related to pensions	3,143,789	3,797,289
Deferred amounts related to OPEB	1,312,130	1,253,177
Total Deferred Outflows of Resources	9,745,929	10,783,609

SPARTANBURG WATER SYSTEM
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	1,234,178	1,954,911
Payable from restricted assets - customer deposits	1,526,091	1,720,545
Accrued salaries and wages	1,212,581	1,234,375
Accrued employee benefits	407,769	362,249
Accrued interest expense	466,084	474,705
Other payables	406,748	492,270
Sewer and water collections payable to others	1,808,644	1,799,177
Long-term debt - current portion	6,250,000	6,135,000
Total current liabilities	13,312,095	14,173,232
Noncurrent liabilities		
Net pension liability	23,065,802	23,366,599
Net other post-employment benefit liability	11,183,581	11,264,695
Long-term debt - net of current portion	160,155,391	166,800,781
Total noncurrent liabilities	194,404,774	201,432,075
Total Liabilities	207,716,869	215,605,307
Deferred Inflows of Resources		
Deferred amounts related to pensions	284,356	126,110
Deferred amounts related to OPEB	3,350	-
	287,706	126,110
Net Position		
Net investment in capital assets	75,359,394	71,738,818
Unrestricted	(4,084,372)	(8,442,542)
Total Net Position	\$ 71,275,022	\$ 63,296,276

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

SPARTANBURG WATER SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	Restated 2018
Operating Revenues		
Water sales	\$ 39,662,643	\$ 38,622,915
Private fire service rates	367,241	356,078
Cut-off service charges	419,314	360,354
Tap and meter sales	999,085	715,805
New account fees	191,640	191,040
Ice machine sales	410,229	405,520
Miscellaneous	221,878	203,639
	<u>42,272,030</u>	<u>40,855,351</u>
Operating Expenses		
Operating expenses before depreciation	26,494,111	25,633,608
Depreciation	8,333,554	7,915,554
	<u>34,827,665</u>	<u>33,549,162</u>
Operating Income	<u>7,444,365</u>	<u>7,306,189</u>
Nonoperating Revenues (Expenses)		
Capacity fees	313,346	294,775
Fishing and boating permits	383,483	410,378
Interest income	1,492,558	530,763
Miscellaneous	211,547	161,804
Intercompany services	3,475,522	3,189,295
Administrative income	321,733	285,805
Payments to other governmental units	(1,021,000)	(1,000,000)
Gain on sale of capital assets	61,463	108,241
Bond issuance costs	-	(467,731)
Interest and paying agent fees	(5,894,814)	(5,516,898)
	<u>(656,162)</u>	<u>(2,003,568)</u>
Increase in Net Position Before Capital Contributions	6,788,203	5,302,621
Capital Contributions	<u>1,190,543</u>	<u>676,992</u>
Increase in Net Position	7,978,746	5,979,613
Net Position - Beginning of Year - Restated	<u>63,296,276</u>	<u>57,316,663</u>
Net Position - End of Year	<u>\$ 71,275,022</u>	<u>\$ 63,296,276</u>

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

SPARTANBURG WATER SYSTEM
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	Restated 2018
Cash Flows Provided (Used) by Operating Activities		
Cash received from customers	\$ 43,278,075	\$ 43,166,754
Cash paid to suppliers for goods and services	(10,916,463)	(8,701,513)
Cash paid to or for the benefit of employees	(15,929,506)	(15,158,763)
	16,432,106	19,306,478
Cash Flows Provided (Used) by Noncapital Financing Activities		
Intercompany services	3,475,522	3,189,295
Payments to other governmental units	(1,021,000)	(1,000,000)
	2,454,522	2,189,295
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Capital contributions	384,923	264,842
Capacity fees	313,346	294,775
Acquisition and construction of capital assets	(6,380,329)	(8,693,378)
Proceeds from sale of capital assets	74,163	108,916
Proceeds from issuance of revenue bonds	-	15,590,934
Payments to current and advanced refundings escrow	-	(4,269,003)
Bond issuance costs	-	(125,960)
Repayments of bonds payable - revenue bonds	(6,135,000)	(6,025,000)
Interest and paying agent fees	(5,847,071)	(5,451,479)
	(17,589,968)	(8,305,353)
Cash Flows Provided (Used) by Investing Activities		
Interest income	1,492,558	530,763
Net Increase (Decrease) in Cash and Cash Equivalents	2,789,218	13,721,183
Cash and Cash Equivalents - Beginning of Year	62,507,269	48,786,086
Cash and Cash Equivalents - End of Year	\$ 65,296,487	\$ 62,507,269

SPARTANBURG WATER SYSTEM
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	Restated 2018
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating income	\$ 7,444,365	\$ 7,306,189
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	8,333,554	7,915,554
Pension expense	2,155,703	2,423,966
OPEB expense	877,783	1,006,475
Nonoperating income	916,763	857,987
(Increase) decrease in assets:		
Accounts receivable	424,489	1,390,488
Loans receivable	166	7,364
Other receivables	(47,987)	98,975
Inventories	(37,339)	393,233
Deferred outflows related to pensions	(1,644,754)	(1,344,340)
Deferred outflows related to OPEB	(1,014,500)	(1,059,184)
Increase (decrease) in liabilities:		
Accounts payable	(720,733)	191,045
Customer deposits	(194,454)	41,459
Accrued salaries and wages	(21,794)	131,377
Accrued employee benefits	45,520	81,814
Accrued interest expense	(8,621)	14,428
Other payables	(85,522)	(65,482)
Sewer and water collections payable to others	9,467	(84,870)
Net Cash Provided (Used) by Operating Activities	\$ 16,432,106	\$ 19,306,478
Noncash Investing, Capital and Financing Activities		
Contribution of capital assets	\$ 805,620	\$ 412,150
Amortization included in interest expense	\$ 47,743	\$ 65,419
Current refunding		
Proceeds from revenue bond issue	\$ -	\$ 31,510,000
Defeased revenue bonds	\$ -	\$ (38,115,000)
Deferred loss on refunding	\$ -	\$ (2,110,109)
Bond premium	\$ -	\$ 4,787,877
Bond issuance costs	\$ -	\$ (341,771)

SPARTANBURG WATER SYSTEM
 STATEMENTS OF CASH FLOWS - CONTINUED
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	Restated 2018
Reconciliation of Cash and Investments as Shown on the Statements of Net Position and Cash Flow Statements		
Statement of net position classifications		
Current assets		
Cash	\$ 1,746,979	\$ 3,027,686
Investments	24,472,868	18,572,157
	26,219,847	21,599,843
Noncurrent assets		
Restricted cash	1,727,742	1,921,170
Restricted investments	37,348,898	38,986,256
	39,076,640	40,907,426
	\$ 65,296,487	\$ 62,507,269
Cash flow classifications		
Petty cash	\$ 5,717	\$ 4,217
Cash on hand	546,117	322,557
Cash deposits	2,922,887	4,622,082
Investments - cash equivalents	61,821,766	57,558,413
Total cash and cash equivalents	\$ 65,296,487	\$ 62,507,269

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

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

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

Reporting Entity

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

Basis of Accounting

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

Use of Restricted Resources

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

Revenues and Expenses

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the System. Operating revenues consist primarily of charges for services. 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.

Investments

Investments are stated at fair value.

SPARTANBURG WATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accounts Receivable

Accounts receivable 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.

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*.

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

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

Compensated Absences

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

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

Long-Term Liabilities

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred Outflows and Inflows of Resources

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

Capital Contributions

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

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

Custodial credit risk - deposits - the risk that in the event of a bank failure, the deposits may not be returned to the System. The System'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 System was not exposed to custodial credit risk.

Statutes authorized the System to invest in obligations of the United States and its agencies, general obligations (not revenue obligations) of the State of South Carolina and its subdivisions, savings and loan associations to the extent of federal insurance, certificates of deposit 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 System adopted a formal deposit and investment policy in 2019. The System is to invest its funds based on the following objectives, in priority order: safety, liquidity, and yield.

Credit risk – The System'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 System'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.

SPARTANBURG WATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 2 - CASH DEPOSITS AND INVESTMENTS - CONTINUED

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.

The System 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	\$ 53,780,274	\$ 49,247,429	Not rated
Dreyfus Government Prime	<90 days	8,041,492	8,310,984	Aaa-mf
		<u>\$ 61,821,766</u>	<u>\$ 57,558,413</u>	

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

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

SPARTANBURG WATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 2 - CASH DEPOSITS AND INVESTMENTS - CONTINUED

	2019	2018
Restricted Assets for Customer Deposits		
Cash	\$ 1,526,091	\$ 1,720,545
Restricted assets for the Acquisition and Construction of Capital assets		
Cash	201,652	200,625
Investments	29,307,405	30,675,272
	29,509,057	30,875,897
Restricted Assets for Debt Service Reserve and Debt Service Funds		
Investments	8,041,492	8,310,984
	\$ 39,076,640	\$ 40,907,426

NOTE 3 - LOANS RECEIVABLE

The System provides a program whereby it finances participation and capacity fees for new customers. The loan terms are bi-monthly payments of one to ten years at interest rates of nine to twelve percent. These loans are secured by a recorded lien against the homeowner's real property. The balance of loans receivable from customers was \$15,381 and \$15,547 at June 30, 2019 and 2018, respectively.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 - 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				
Land	\$ 1,120,734	\$ 834,255	\$ -	\$ 1,954,989
Construction in progress	5,573,834	4,745,168	2,643,384	7,675,618
Total nondepreciable	6,694,568	5,579,423	2,643,384	9,630,607
Depreciable				
Motor vehicles	4,880,496	225,193	135,115	4,970,574
Service and maintenance equipment	11,893,242	230,026	57,021	12,066,247
Office furniture and fixtures	5,033,848	161,011	123,705	5,071,154
Computer software	1,979,251	42,672	-	2,021,923
Office buildings	6,070,555	-	-	6,070,555
Transmission, distribution and treatment facilities	272,877,961	2,773,069	-	275,651,030
Joint maintenance facility	1,657,119	12,319	-	1,669,438
Joint lab building	882,354	-	-	882,354
Donated system facilities	14,857,222	805,620	-	15,662,842
Total depreciable	320,132,048	4,249,910	315,841	324,066,117
Total Capital Assets	326,826,616	9,829,333	2,959,225	333,696,724
Accumulated Depreciation				
Motor vehicles	3,387,977	644,276	135,115	3,897,138
Service maintenance and equipment	8,902,192	906,080	45,331	9,762,941
Office furniture and fixtures	4,302,732	267,019	122,695	4,447,056
Computer software	612,807	172,931	-	785,738
Office buildings	3,045,132	224,564	-	3,269,696
Transmission, distribution and treatment facilities	102,391,339	5,659,817	-	108,051,156
Joint maintenance facility	1,170,489	68,571	-	1,239,060
Joint lab building	357,640	25,827	-	383,467
Donated system facilities	4,989,324	364,469	-	5,353,793
	129,159,632	8,333,554	303,141	137,190,045
Capital Assets - Net of Accumulated Depreciation	\$ 197,666,984			\$ 196,506,679

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 4 - CAPITAL ASSETS - CONTINUED

	2018			Balance June 30, 2018
	Balance June 30, 2017	Additions	Removals/ Disposals	
Capital Assets				
Nondepreciable				
Land	\$ 1,120,734	\$ -	\$ -	\$ 1,120,734
Construction in progress	3,011,631	7,407,202	4,844,999	5,573,834
Total nondepreciable	<u>4,132,365</u>	<u>7,407,202</u>	<u>4,844,999</u>	<u>6,694,568</u>
Depreciable				
Motor vehicles	4,315,398	762,680	197,582	4,880,496
Service and maintenance equipment	11,314,341	637,651	58,750	11,893,242
Office furniture and fixtures	4,875,323	250,936	92,411	5,033,848
Computer software	1,800,194	179,057	-	1,979,251
Office buildings	5,772,416	298,139	-	6,070,555
Transmission, distribution and treatment facilities	268,932,819	3,945,142	-	272,877,961
Joint maintenance facility	1,599,550	57,569	-	1,657,119
Joint lab building	882,354	-	-	882,354
Donated system facilities	14,445,072	412,150	-	14,857,222
Total depreciable	<u>313,937,467</u>	<u>6,543,324</u>	<u>348,743</u>	<u>320,132,048</u>
Total Capital Assets	<u>318,069,832</u>	<u>13,950,526</u>	<u>5,193,742</u>	<u>326,826,616</u>
Accumulated Depreciation				
Motor vehicles	2,950,590	634,969	197,582	3,387,977
Service maintenance and equipment	8,066,321	894,621	58,750	8,902,192
Office furniture and fixtures	4,162,720	231,748	91,736	4,302,732
Computer software	451,917	160,890	-	612,807
Office buildings	2,826,428	218,704	-	3,045,132
Transmission, distribution and treatment facilities	97,055,602	5,335,737	-	102,391,339
Joint maintenance facility	1,110,774	59,715	-	1,170,489
Joint lab building	331,813	25,827	-	357,640
Donated system facilities	4,635,981	353,343	-	4,989,324
	<u>121,592,146</u>	<u>7,915,554</u>	<u>348,068</u>	<u>129,159,632</u>
Capital Assets - Net of Accumulated Depreciation	<u>\$ 196,477,686</u>			<u>\$ 197,666,984</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$8,333,554 and \$7,915,554, respectively.

Interest costs incurred during the years ended June 30, 2019 and 2018 were \$5,847,071 and \$5,543,606, respectively. Interest capitalized for the year ended June 30, 2018 was \$104,098.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 5 - LONG-TERM DEBT

	2019				Balance June 30, 2019	Due Within One Year
	Balance June 30, 2018	Additions	Reductions	Refunded		
Bonds and Other Noncurrent Liabilities Payable						
Revenue bonds	\$ 163,725,000	\$ -	\$(6,135,000)	\$ -	\$ 157,590,000	\$ 6,250,000
Bond premium	9,210,781	-	(395,390)	-	8,815,391	-
	<u>\$ 172,935,781</u>	<u>\$ -</u>	<u>\$(6,530,390)</u>	<u>\$ -</u>	<u>\$ 166,405,391</u>	<u>\$ 6,250,000</u>

	2018				Balance June 30, 2018	Due Within One Year
	Balance June 30, 2017	Additions	Reductions	Refunded		
Bonds and Other Noncurrent Liabilities Payable						
Revenue bonds	\$ 161,935,000	\$ 45,930,000	\$(6,025,000)	\$(38,115,000)	\$ 163,725,000	\$ 6,135,000
Bond premium	3,613,614	6,364,450	(361,643)	(405,640)	9,210,781	-
	<u>\$ 165,548,614</u>	<u>\$ 52,294,450</u>	<u>\$(6,386,643)</u>	<u>\$(38,520,640)</u>	<u>\$ 172,935,781</u>	<u>\$ 6,135,000</u>

Revenue Bonds

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

	<u>2019</u>	<u>2018</u>
\$8,000,000 City of Spartanburg, South Carolina Water System Junior Lien Revenue Bonds, Series 2012, dated July 13, 2012. Annual maturities beginning in 2013 of \$450,000 to \$650,000 maturing in 2027 with semi-annual interest of 2.23%. Bonds issued to fund improvements to the System.	\$ 4,695,000	\$ 5,205,000
\$27,255,000 City of Spartanburg, South Carolina Water System Revenue Bonds, Series 2013, dated October 29, 2013. Annual maturities beginning in 2026 of \$380,000 to \$2,265,000 maturing in 2027 with semi-annual interest of 1.81% to 2.50%. Bonds issued to fund improvements to the System.	27,255,000	27,255,000
\$26,085,000 City of Spartanburg, South Carolina Water System Revenue Refunding Bonds, Series 2015A, dated June 23, 2015. Annual maturities beginning in 2028 of \$1,000,000 to \$3,860,000 maturing in 2035 with semi-annual interest of 1.22% to 5.00%. Bonds issued to refund the Series 2007B bonds.	26,085,000	26,085,000
\$6,255,000 City of Spartanburg, South Carolina Water System Revenue Refunding Bonds, Taxable Series 2015B, dated June 23, 2015. Annual maturities beginning in 2016 of \$375,000 to \$740,000 maturing in 2027 with semi-annual interest of 1.22% to 3.68%. Bonds issued to refund the Series 2010 bonds.	4,470,000	5,090,000

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 5 - LONG-TERM DEBT - CONTINUED

Revenue Bonds - Continued

	2019	2018
<p>\$59,080,000 City of Spartanburg, South Carolina Water System Refunding Revenue Bonds, Series 2017A, dated June 1, 2017. Annual maturities beginning in 2018 of \$4,920,000 to \$5,850,000 maturing in 2028 with semi-annual interest of 1.75%. Bonds issued to refund the Series 2007A bonds.</p>	49,155,000	54,160,000
<p>\$45,930,000 City of Spartanburg, South Carolina Water System Refunding and Improvement Revenue Bonds, Series 2017B, dated August 24, 2017. Annual maturities beginning in 2022 of \$25,000 to \$7,425,000 maturing in 2047 with semi-annual interest of 3.25% to 5.00%. Bonds issued to refund the Series 2007B and 2009 bonds, fund improvements to the distribution and treatment facilities, and fund capitalized interest.</p>	45,930,000	45,930,000
	157,590,000	163,725,000
<p>Less: current portion</p>	(6,250,000)	(6,135,000)
<p>Total long-term revenue bonds payable</p>	\$ 151,340,000	\$ 157,590,000

Debt service requirements to maturity including interest on all outstanding bonds as of June 30, 2019 are as follows:

Year Ending June 30	Principal	Interest	Total
2020	\$ 6,250,000	\$ 5,743,127	\$ 11,993,127
2021	6,375,000	5,625,024	12,000,024
2022	6,525,000	5,502,452	12,027,452
2023	6,970,000	5,374,645	12,344,645
2024	7,115,000	5,230,430	12,345,430
2025-2029	35,355,000	23,824,538	59,179,538
2030-2034	33,105,000	17,498,644	50,603,644
2035-2039	41,170,000	9,129,763	50,299,763
2040-2044	12,185,000	1,808,988	13,993,988
2045-2047	2,540,000	173,306	2,713,306
	\$ 157,590,000	\$ 79,910,917	\$ 237,500,917

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

SPARTANBURG WATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 6 - DEFEASANCE OF DEBT AND ADVANCED REFUNDINGS

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

The current and advanced refunding resulted in a gross cash flow gain of \$13,136,683 and an economic cash flow gain of \$5,168,811 for the year ending June 30, 2018.

In current and prior years, advance refundings resulted in book losses that are being amortized over the original remaining life of the old bonds that were defeased or the life of the new debt, whichever is less. The unamortized losses at June 30, 2019 and 2018 are shown on the Statements of Net Position as deferred loss on refundings under deferred outflows of resources. Amortization has been included in interest expense and was \$443,133 and \$427,062 for the years ended June 30, 2019 and 2018, respectively.

The proceeds from current and previous bonds issued that defeased certain revenue bonds in current and prior years were placed in an irrevocable trust to provide for all future debt payments on the old bonds. Accordingly, the trust accounts' assets and the liability for the defeased bonds are not included in the System's financial statements. At June 30, 2019 and 2018, \$0 and \$33,935,000 of bonds outstanding are considered defeased from current and prior years.

NOTE 7 - CAPITAL CONTRIBUTIONS

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

	2019	2018
Donated assets	\$ 805,620	\$ 412,150
Private industry and developers	2,500	-
Participation fees	382,423	264,842
	\$ 1,190,543	\$ 676,992

NOTE 8 - PENSION PLAN

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 8 - PENSION PLAN - CONTINUED

Benefits Provided/Membership- Continued - 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.

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 System were \$1,644,754 and \$1,344,341, for the years ended June 30, 2019 and 2018, respectively.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 8 - PENSION PLAN - CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2019, the System reported a net pension liability of \$23,065,802 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 System's proportion of the collective net pension liability at June 30, 2019 and 2018 was .102940% and .103798%, respectively, a decrease of .00086% since June 30, 2017, the prior measurement date.

For the year ended June 30, 2019, the System recognized pension expense of \$2,258,102. The System also recognized revenue of \$102,399 as a result of a nonemployer 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 \$2,423,966. At June 30, 2019 and 2018, the System reported deferred outflows of resources and deferred inflows of resources related to the pension as follows:

2019		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 217,512	\$ 284,356
Changes in assumptions	915,122	-
Net difference between projected and actual earnings on pension plan investments	366,401	-
System contributions subsequent to the measurement date	1,644,754	-
Total	<u>\$ 3,143,789</u>	<u>\$ 284,356</u>
2018		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 432,798	\$ 126,110
Changes in assumptions	1,367,864	-
Net difference between projected and actual earnings on pension plan investments	652,286	-
System contributions subsequent to the measurement date	1,344,341	-
Total	<u>\$ 3,797,289</u>	<u>\$ 126,110</u>

SPARTANBURG WATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 8 - PENSION PLAN - CONTINUED

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

\$1,644,754 reported as deferred outflows of resources related to pensions in 2019 resulted from System contributions subsequent to the measurement date and will be recognized as a reduction of the net collective pension liability in the year ended June 30, 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	\$	995,836
2021		560,386
2022		(299,903)
2023		(41,640)
	\$	<u>1,214,679</u>

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

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.

SPARTANBURG WATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 8 - PENSION PLAN - CONTINUED

Actuarial Assumptions - Continued

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	47%	3.38%
Real Assets	10%	0.42%
Opportunistic	13%	0.48%
Diversified Credit	18%	0.65%
Conservative Fixed Income	12%	0.10%
Total Expected Real Return	<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.

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
System's proportionate share of the collective net pension liability	\$ 29,473,812	\$ 23,065,802	\$ 18,484,689

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 9 - POST-RETIREMENT HEALTH CARE BENEFITS

Plan Description

The System, through its substantive commitment to provide other post-employment benefits (OPEB), maintains an agent employer defined benefit plan to provide certain postretirement health care benefits. The plan provides health care and prescription drug coverage in the Group insurance plan; and upon becoming eligible for Medicare coverage, retirees are provided with Medicare supplement insurance which includes health care and prescription drug coverage. Participants must be eligible to retire under the SCRS with a minimum of 12 years of service to receive benefits.

SPARTANBURG WATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Plan Description - Continued

The System explicitly provides a portion of the cost of coverage for retirees and the retirees are required to pay a portion of the premiums which is determined each year. Retirees may continue dependent coverage (and pay the full premium for this coverage) if enrolled in dependent coverage at the time of retirement. Spouses age 65 or older may continue coverage by paying the total cost of coverage. Spouses are not covered for pre or post-65 retirees.

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

The Plan's assets are held in an irrevocable trust for the exclusive benefit of the Plan participants and are administered by the South Carolina Other Retirement Benefits Employer Trust (SCORBET). Each member shares in the SCORBET's administrative and investment related expenses. The SCORBET issues a publically available Comprehensive Annual Financial Report (CAFR). 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.

Plan Membership

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

Inactive plan members of beneficiaries receiving benefits	53
Active plan members	199
Total plan members	252

Contributions

The Plan is financed on a pay-as-you-go basis and through separate contributions to SCORBET based on the actuarially determined employer contribution. The SCORBET allows each member to choose a contribution amount into the trust based on the actuarially determined employer contribution. The System paid \$1,195,060 and \$1,193,816 in pay-as-you-go and SCORBET contributions for the years ended June 30, 2019 and 2018.

Net OPEB Liability

The System's net OPEB liability June 30, 2019 and 2018 of \$11,183,581 and \$11,264,695, 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:

SPARTANBURG WATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Net OPEB Liability - Continued

Actuarial assumptions and other inputs - continued

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

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

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

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

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

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

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:

2019			
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c)
Balance as of December 31, 2017	\$ 15,718,563	\$ 4,453,868	\$ 11,264,695
Changes for the Year			
Service cost	541,715	-	541,715
Interest	737,040	-	737,040
Difference between expected and actual experience	(3,799)	-	(3,799)
Contributions - employer	-	1,295,588	(1,295,588)
Net investment income	-	60,482	(60,482)
Benefit payments	(408,588)	(408,588)	-
Net Changes	866,368	947,482	(81,114)
Balance as of December 31, 2018	<u>\$ 16,584,931</u>	<u>\$ 5,401,350</u>	<u>\$ 11,183,581</u>
2018			
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c)
Balance as of December 31, 2016	\$ 14,855,179	\$ 4,185,737	\$ 10,669,442
Changes for the Year			
Service cost	525,937	-	525,937
Interest	693,898	-	693,898
Difference between expected and actual experience	142,956	-	142,956
Contributions - employer	-	669,407	(669,407)
Net investment income	-	117,441	(117,441)
Benefit payments	(499,407)	(499,407)	-
Plan administrative expenses	-	(19,310)	19,310
Net Changes	863,384	268,131	595,253
Balance as of December 31, 2017	<u>\$ 15,718,563</u>	<u>\$ 4,453,868</u>	<u>\$ 11,264,695</u>

SPARTANBURG WATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Changes in the Net OPEB Liability - Continued

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

	Discount Rate Sensitivity		
	1% Decrease	Discount Rate	1% Increase
	3.75%	4.75%	5.75%
Net OPEB Liability	\$ 14,179,902	\$ 11,183,581	\$ 8,799,508

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

	Health Care Cost Trend Rate Sensitivity		
	1%	Current	1%
	Decrease	Current	Increase
Net OPEB Liability	\$ 8,270,344	\$ 11,183,581	\$ 14,994,717

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 System recognized OPEB expense of \$877,783 and \$1,006,475, respectively. At June 30, 2019 and 2018, the System 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	\$ 109,160	\$ 3,350
Net difference between projected and actual earnings on plan investments	188,470	-
District contributions subsequent to the measurement date	1,014,500	-
	\$ 1,312,130	\$ 3,350

SPARTANBURG WATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

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

	2018	
	Deferred Outflows Of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 126,058	\$ -
Net difference between projected and actual earnings on plan investments	67,935	-
District contributions subsequent to the measurement date	1,059,184	-
	\$ 1,253,177	\$ -

\$1,014,500 reported as deferred outflows of resources related to OPEB in 2019, resulted from System contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 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	\$ 67,813
2020	67,813
2021	67,812
2022	50,828
2023	16,449
Thereafter	23,565
	\$ 294,280

NOTE 10 - DEFERRED COMPENSATION PLANS

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

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

SPARTANBURG WATER SYSTEM
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 JUNE 30, 2019 AND 2018

NOTE 11 - RISK MANAGEMENT

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

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

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

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

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

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

	2019	2018
Beginning of the year liability	\$ 179,811	\$ 123,757
Claims	2,185,942	2,309,044
Claims payments	(2,156,363)	(2,252,990)
End of the year liability	\$ 209,390	\$ 179,811

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

NOTE 12 - PAYMENTS TO OTHER GOVERNMENTAL UNITS

On June 11, 1991, the System adopted a resolution to transfer a percentage of actual gross water revenue to the City of Spartanburg for services and return on investment beginning July 1, 1991. A new transfer agreement was adopted on June 10, 2013, providing that the System pay a flat fee of \$1,200,000 in 2014; \$1,100,000 in 2015; and \$1,000,000 each year from 2016 through 2018. Transfer amounts will henceforward increase for the years 2019 through 2028 by the Consumer Price Index of the preceding year. As part of the amended agreement, the System paid the City \$1,021,000 and \$1,000,000 for the years ended June 30, 2019 and 2018, as reported in the Statements of Revenues, Expenses and Changes in Net Position.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 13 - RELATED PARTY TRANSACTIONS

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

The fees were as follows:

	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 fee	220,428	166,018
Fleet services fee	131,968	138,161
Engineering	755,413	528,899
Operations fee	136,551	194,208
	<u>\$ 3,475,522</u>	<u>\$ 3,189,295</u>

The following amounts were due from (to) the Spartanburg Sanitary Sewer District at June 30, 2019 and 2018 and included in sewer and water collections payable to others and other receivables on the Statements of Net Position:

	2019	2018
User charges collected	\$ (1,789,503)	\$ (1,781,973)
Other payables	(406,748)	(492,270)
Miscellaneous receipts	943,839	895,852
	<u>\$ (1,252,412)</u>	<u>\$ (1,378,391)</u>

The System with the Spartanburg Sanitary Sewer District jointly owns an office building on North Liberty Street in downtown Spartanburg, South Carolina. The facility provides offices for the engineering and other support service departments that serve both organizations. The System owns an undivided interest of the office building. At June 30, 2019 and 2018, the System's share is included in capital assets with a cost of \$572,381 and accumulated depreciation of \$458,657 and \$440,408, respectively.

The System also jointly owns with the Spartanburg Sanitary Sewer District approximately 42 acres on Highway 295 By-Pass in Spartanburg County for future additional space requirements and facilities to accommodate a maintenance shop and personnel involved in maintenance activities. At June 30, 2019 and 2018, the System's share is included in capital assets with a cost of \$1,669,438 and \$1,657,119 and accumulated depreciation of \$1,239,060 and \$1,170,489, respectively.

The System additionally with the Spartanburg Sanitary Sewer District jointly owns a laboratory building on Highway 295 By-pass in Spartanburg County. The facility provides office and laboratories for the industrial wastewater, backflow prevention and water quality services. At June 30, 2019 and 2018, the System's share is included in capital assets with a cost of \$882,354 and accumulated depreciation of \$383,467 and \$357,640, respectively.

NOTE 14 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES AND COMMITMENTS

Sick Pay

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

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

Unemployment Compensation

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

Underground Storage Tanks

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

Construction Commitments

Outstanding commitments on construction contracts totaled \$1,603,788 and \$1,554,863 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 System does not believe an estimate of potential liability, if any, is required in the accompanying financial statements.

NOTE 15 - RECLASSIFICATIONS

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

NOTE 16 - PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT

The System 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 \$288,546. 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 \$6,455,113, which has no effect on total net position. The effect on the previously issued 2018 financial statements is summarized as follows:

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2019 AND 2018

NOTE 16 - PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT - CONTINUED

	Previously Reported	Increase (Decrease)	Restated
Statements of Net Position			
Capital assets - net of accumulated depreciation	\$ 190,683,870	\$ 288,546	\$ 190,972,416
Total noncurrent assets	238,285,864	288,546	238,574,410
Total assets	267,955,538	288,546	268,244,084
Net investment in capital assets	77,905,385	(6,166,567)	71,738,818
Total net position	(14,897,655)	6,455,113	(8,442,542)
Statements of Revenues, Expenses and Changes in Net Position			
Depreciation expense	8,204,100	(288,546)	7,915,554
Total operating expenses	33,837,708	(288,546)	33,549,162
Operating Income	7,017,643	288,546	7,306,189
Increase (decrease) in net position, before capital contributions	5,014,075	288,546	5,302,621
Increase in net position	5,691,067	288,546	5,979,613
Net Position - End of Year	63,007,730	288,546	63,296,276
Statements of Cash Flows			
Reconciliation of Operating Income to Net Cash			
Provided (Used) by Operating Activities:			
Operating income	7,017,643	288,546	7,306,189
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	8,204,100	(288,546)	7,915,554

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

	2018
Net Position - Beginning of Year	\$ 67,346,606
Removal of the Net OPEB Obligation (GASB 45)	34,284
Implementation of GASB Statement 75 - Net OPEB Liability	(10,669,442)
Implementation of GASB Statement 75 - Deferred Outflows Related to OPEB	605,215
Net Position - Beginning of Year - Restated	<u>\$ 57,316,663</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

	2019	2018	2017	2016	2015
System's Proportion of the Collective Net Pension Liability	0.102940%	0.103798%	0.100366%	0.100390%	0.102614%
System's Proportionate Share of the Collective Net Pension Liability	\$ 23,065,802	\$ 23,366,599	\$ 22,142,905	\$ 19,039,448	\$ 17,666,729
System's Covered Payroll	\$ 10,669,170	\$ 10,472,856	\$ 10,038,663	\$ 9,412,769	\$ 9,316,040
System's Proportionate Share of the Collective Net Pension Liability as a Percentage of its Covered Payroll	216.19%	223.12%	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 WATER SYSTEM
SCHEDULE OF THE SYSTEM'S CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

	2018	2018	2017	2016	2015
Statutorily Required Contributions	\$ 1,644,754	\$ 1,344,341	\$ 1,210,662	\$ 1,110,276	\$ 1,011,873
Contributions in Relation to the Statutorily Required Contributions	1,644,754	1,344,341	1,210,662	1,110,276	1,011,873
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
System's Covered Payroll	\$ 11,296,390	\$ 10,669,170	\$ 10,472,856	\$ 10,038,663	\$ 9,412,769
Contributions as a Percentage of Covered Payroll	14.56%	12.60%	11.56%	11.06%	10.75%

Notes to Schedules:

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

SPARTANBURG WATER SYSTEM
SCHEDULE OF CHANGES IN THE SYSTEM'S NET OPEB LIABILITY AND RELATED RATIOS
LAST TEN FISCAL YEARS ENDING JUNE 30

	2019	2018
Total OPEB Liability		
Service cost	\$ 541,715	\$ 525,937
Interest on total OPEB liability	737,040	693,898
Difference between expected and actual experience	(3,799)	142,956
Benefit payments	(408,588)	(499,407)
Net Change in Total OPEB Liability	866,368	863,384
Total OPEB Liability - Beginning of Year	15,718,563	14,855,179
Total OPEB Liability - End of Year (a)	\$ 16,584,931	\$ 15,718,563
Plan Fiduciary Net Position		
Contributions - employer	\$ 1,295,588	\$ 669,407
Net investment income	60,482	117,441
Benefit payments	(408,588)	(499,407)
Administrative expenses	-	(19,310)
Net Change in Plan Fiduciary Net Position	947,482	268,131
Plan Fiduciary Net Position - Beginning of Year	4,453,868	4,185,737
Plan Fiduciary Net Position - End of Year (b)	\$ 5,401,350	\$ 4,453,868
Net OPEB Liability - Ending (a-b)	\$ 11,183,581	\$ 11,264,695
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	32.57%	28.34%
Covered Payroll	\$ 9,953,096	\$ 9,953,096
Net OPEB Liability as a Percentage of Covered Payroll	112.36%	113.18%

Notes to Schedule:

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

SPARTANBURG WATER SYSTEM
 SCHEDULE OF THE SYSTEM'S CONTRIBUTIONS
 LAST TEN FISCAL YEARS ENDING JUNE 30

	2019	2018
Actuarially Determined Contribution (ADC)	\$ 1,093,916	\$ 1,033,974
Contributions in Relation to the ADC	1,195,060	1,193,816
Annual Contribution Deficiency	\$ (101,144)	\$ (159,842)
Covered Payroll	\$ 9,953,096	\$ 9,953,096
Actual Contributions as a Percentage of Covered Payroll	12.01%	11.99%

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 WATER SYSTEM
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Personnel Costs		
Salaries and wages	\$ 10,694,740	\$ 10,273,600
State retirement	2,104,021	2,318,332
Employer's social security taxes	752,299	733,372
Group insurance	2,689,901	2,942,182
Worker's compensation	188,902	131,384
	<u>16,429,863</u>	<u>16,398,870</u>
Supplies and Maintenance		
Printing and office supplies	140,411	182,158
Safety equipment and supplies	75,883	86,488
Equipment maintenance	301,247	274,011
Vehicle operation and maintenance	151,765	115,798
Construction equipment operations and maintenance	237,048	201,092
Systems operation and maintenance	1,416,394	1,245,874
Tap and meter supplies	222,893	271,847
Building and grounds maintenance	590,670	451,949
Treatment and filter supplies	1,581,406	1,908,252
Laboratory supplies	210,294	200,735
	<u>4,928,011</u>	<u>4,938,204</u>
Outside Services		
Utilities	1,022,986	1,002,097
Telephone	268,046	236,755
Uniform rentals	123,633	95,666
Legal fees	235,569	60,923
Consulting services	363,814	299,269
Audit	15,055	14,688
Other management services	21,514	16,368
Postage and delivery	232,862	161,994
Other	1,655,221	1,322,292
Permits	122,275	127,091
	<u>4,060,975</u>	<u>3,337,143</u>
Educational and Training Expenses		
Conferences and education	164,798	194,011
Professional dues and memberships	131,795	130,899
Employment expenses	66,209	26,819
Safety and employee programs	95,268	91,594
	<u>458,070</u>	<u>443,323</u>
Company Expenses		
Property and liability insurance	291,157	260,426
Bad debt expense	142,994	147,090
Public relations and information	164,441	86,510
Miscellaneous expense	18,600	22,042
	<u>617,192</u>	<u>516,068</u>
Total Operating Expenses	<u>\$ 26,494,111</u>	<u>\$ 25,633,608</u>

**III. STATISTICAL SECTION
(UNAUDITED)**

Statistical Section

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

Contents

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

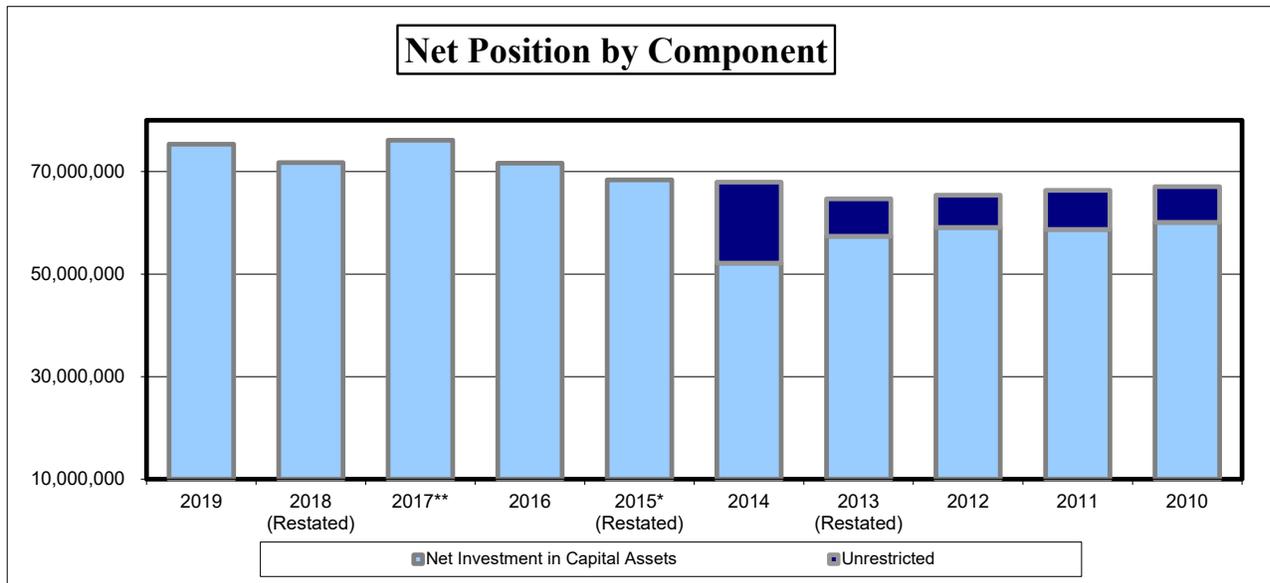
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Financial Trends

Net Position by Component

FY 2010 to FY 2019

Fiscal Year	Net Investment in Capital Assets		Unrestricted	Total Net Position
2019	\$ 75,359,394		\$ (4,084,372)	\$ 71,275,022
2018 (Restated)	71,738,818		(8,442,542)	63,296,276
2017**	76,099,078		(18,782,415)	57,316,663
2016	71,655,431		(11,500,866)	60,154,565
2015* (Restated)	68,397,749		(13,985,914)	54,411,835
2014	52,165,078		15,793,683	67,958,761
2013 (Restated)	57,405,217		7,245,318	64,650,535
2012	59,081,079		6,299,720	65,380,799
2011	58,738,554		7,612,986	66,351,540
2010	60,115,947		6,915,159	67,031,106



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

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

Changes in Net Position

FY 2010 to FY 2019

	FY 2019	FY 2018 (Restated)	FY 2017	FY 2016	FY 2015 (Restated)	FY 2014	FY 2013 (Restated)	FY 2012	FY 2011	FY 2010
Revenues										
Operating Revenues										
Water Sales	\$ 39,662,643	\$ 38,622,915	\$ 40,183,098	\$ 37,898,737	\$ 35,785,630	\$ 32,429,507	\$ 30,250,185	\$ 29,881,758	\$ 28,683,192	\$ 25,677,639
Tap & Meter Sales	999,085	715,805	603,515	588,520	471,340	383,845	327,320	347,942	309,252	325,772
Other Operating Revenues	1,610,302	1,516,631	1,434,856	1,353,879	1,286,424	1,356,221	1,214,146	1,049,149	997,868	847,918
	42,272,030	40,855,351	42,221,469	39,841,136	37,543,394	34,169,573	31,791,651	31,278,849	29,990,312	26,851,329
Nonoperating Revenues										
Intercompany Services	3,475,522	3,189,295	3,011,119	3,145,181	2,977,887	2,961,169	2,556,100	2,360,476	2,518,702	2,298,700
Other Nonoperating Revenues	2,784,130	1,791,766	1,222,673	1,137,436	1,083,115	1,046,052	917,530	925,005	795,806	942,782
	6,259,652	4,981,061	4,233,792	4,282,617	4,061,002	4,007,221	3,473,630	3,285,481	3,314,508	3,241,482
Total Revenues	48,531,682	45,836,412	46,455,261	44,123,753	41,604,396	38,176,794	35,265,281	34,564,330	33,304,820	30,092,811
Expenses										
Operating Expenses, Excluding Depreciation	26,494,111	25,633,608	23,516,057	23,292,434	21,508,056	20,746,447	20,963,353	20,834,329	19,662,618	19,645,463
Depreciation Expense	8,333,554	7,915,554	7,872,092	7,244,640	6,936,967	6,527,267	6,040,620	5,834,829	5,615,089	5,491,953
Nonoperating Expenses	6,915,814	6,984,529	8,798,600	9,097,263	9,666,764	8,041,001	7,641,109	9,087,122	9,240,098	8,392,026
Total Expenses	41,743,479	40,533,791	40,186,749	39,634,337	38,111,787	35,314,715	34,645,082	35,756,280	34,517,805	33,529,442
Excess (Deficiency), Before Capital Contributions	6,788,203	5,302,621	6,268,512	4,489,416	3,492,609	2,862,079	620,199	(1,191,950)	(1,212,985)	(3,436,631)
Capital Contributions	1,190,543	676,992	923,529	1,253,314	378,256	446,147	649,697	221,209	533,419	486,252
Increase (Decrease) in Net Position	7,978,746	5,979,613	7,192,041	5,742,730	3,870,865	3,308,226	1,269,896	(970,741)	(679,566)	(2,950,379)
Net Position, Beginning of Year, Restated	63,296,276	57,316,663	60,154,565	54,411,835	50,540,970	64,650,535	65,380,799	66,351,540	67,031,106	69,981,485
Change in Accounting Principle	-	-	-	-	-	-	(2,000,160)	-	-	-
Net Position at Beginning of Year, Restated	-	-	-	-	-	-	63,380,639	-	-	-
Net Position, End of Year	\$ 71,275,022	\$ 63,296,276	\$ 67,346,606	\$ 60,154,565	\$ 54,411,835	\$ 67,958,761	\$ 64,650,535	\$ 65,380,799	\$ 66,351,540	\$ 67,031,106

Revenues By Source **FY 2010 to FY 2019**

Fiscal Year	Operating Revenues							Non-Operating Revenues					Total Revenues
	Water Sales	Private Fire Service Rates	Cut-off Service Charges	Tap & Meter Sales	New Account Fees	Miscellaneous	Capacity Fees	Fishing and Boating Permits	Interest Income	Intercompany Services	Administrative Income	Miscellaneous Non-Oper. Revenue	
2019	\$ 39,662,643	\$ 367,241	\$ 419,314	\$ 999,085	\$ 191,640	\$ 632,107	\$ 313,346	\$ 383,483	\$ 1,492,558	\$ 3,475,522	\$ 321,733	\$ 273,010	\$ 48,531,682
2018 (Restated)	38,622,915	356,078	360,354	715,805	191,040	609,159	294,775	410,378	530,763	3,189,295	285,805	270,045	45,836,412
2017	40,183,098	324,644	311,134	603,515	224,503	574,575	273,765	363,134	82,325	3,011,119	241,176	262,273	46,455,261
2016	37,898,737	285,324	361,531	588,520	157,350	549,674	230,890	373,508	6,488	3,145,181	229,517	297,033	44,123,753
2015 (Restated)	35,785,630	281,788	393,266	471,340	187,124	424,246	189,404	362,734	14,350	2,977,887	245,655	270,972	41,604,396
2014	32,429,507	279,379	397,832	383,845	193,333	485,677	143,421	322,194	2,946	2,961,169	230,444	347,047	38,176,794
2013 (Restated)	30,250,185	277,574	406,718	327,320	167,293	362,561	123,013	320,324	30,103	2,556,100	233,053	211,037	35,265,281
2012	29,881,758	273,261	289,627	347,942	119,855	366,406	137,191	334,992	72,478	2,360,476	202,409	177,935	34,564,330
2011	28,683,192	271,226	281,063	309,252	109,530	336,049	87,983	333,741	127,275	2,518,702	180,273	66,534	33,304,820
2010	25,677,639	267,027	245,886	325,772	113,960	221,045	121,640	357,028	183,567	2,298,700	173,522	107,025	30,092,811

Operating Expenses **FY 2010 to FY 2019**

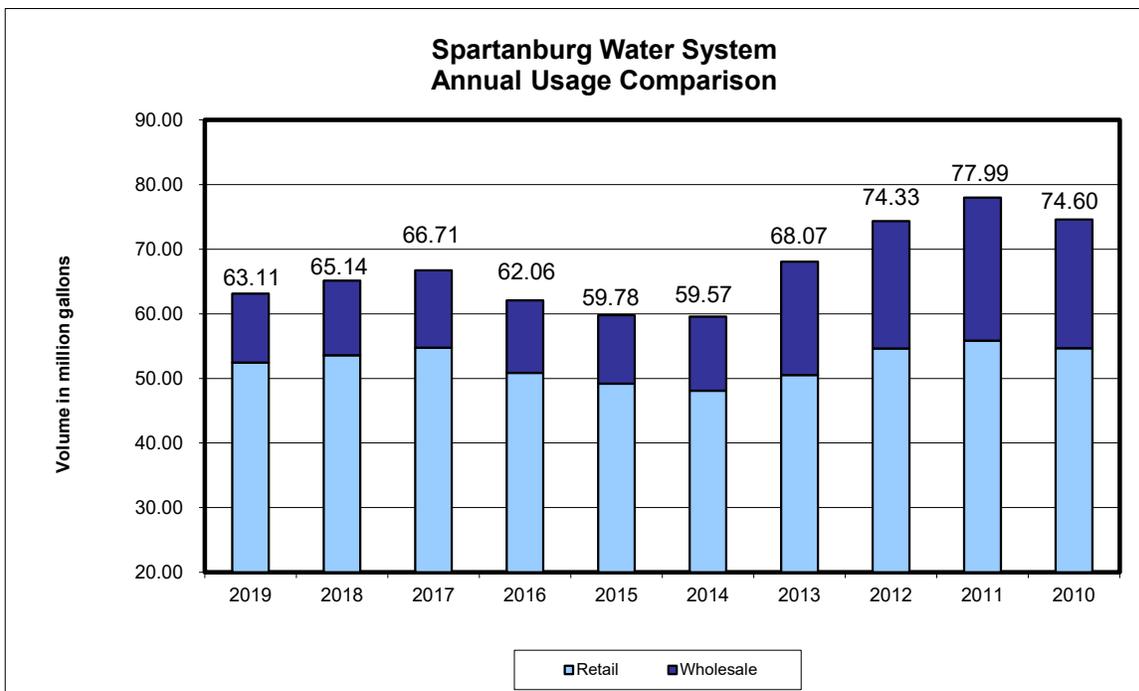
Fiscal Year	Personnel Cost	Supplies and Maintenance	Outside Services	Educational and Training	Company Expenses	Depreciation Expense	Total Expenses
2019	\$ 16,429,863	\$ 4,928,011	\$ 4,060,975	\$ 458,070	\$ 617,192	\$ 8,333,554	\$ 34,827,665
2018 (Restated)	16,398,870	4,938,204	3,337,143	443,323	516,068	7,915,554	33,549,162
2017	15,265,270	3,787,586	3,385,823	469,201	608,177	7,872,092	31,388,149
2016	14,013,276	4,828,118	3,539,437	413,442	498,161	7,244,640	30,537,074
2015 (Restated)	13,868,014	3,853,896	3,026,101	360,093	399,952	6,936,967	28,445,023
2014	13,192,296	3,804,410	3,030,565	338,007	381,169	6,527,267	27,273,714
2013 (Restated)	12,989,385	3,844,526	3,502,959	369,864	256,619	6,040,620	27,003,973
2012	12,600,577	3,992,350	3,576,263	334,541	330,598	5,834,829	26,669,158
2011	12,064,622	3,680,314	3,120,689	296,297	500,696	5,615,089	25,277,707
2010	12,308,285	3,687,009	2,957,178	243,600	449,391	5,491,953	25,137,416

Revenue Capacity

Annual Billed Usage

FY 2010 to FY 2019

Fiscal Year	Volume in Million Gallons		
	Wholesale	Retail	Total
2019	10.66	52.45	63.11
2018	11.55	53.59	65.14
2017	11.98	54.73	66.71
2016	11.20	50.86	62.06
2015	10.58	49.20	59.78
2014	11.47	48.10	59.57
2013	17.54	50.53	68.07
2012	19.70	54.63	74.33
2011	22.13	55.86	77.99
2010	19.93	54.67	74.60



Historical Volume Rate Information

FY 2010 to FY 2019

Fiscal Year	Retail		Wholesale
	Inside City	Outside City	
	Block 1	Block 1	
2019	\$ 0.3840	\$ 0.6720	\$ 0.1631
2018	0.3720	0.6510	0.1591
2017	0.3720	0.6510	0.1591
2016	0.3650	0.6390	0.1511
2015	0.3650	0.6390	0.1511
2014	0.3570	0.6248	0.1511
2013	0.3182	0.5570	0.1511
2012	0.2848	0.4984	0.1484
2011	0.2607	0.4561	0.1457
2010	0.2380	0.4164	0.1430

Number of System Customers**FY 2010 to FY 2019**

Fiscal Year	Retail			Wholesale	Number of Customers
	Residential	Commercial	Industrial		
2019	56,814	6,485	54	5	63,358
2018	55,862	6,457	51	5	62,375
2017	54,997	6,366	54	5	61,422
2016	54,357	6,299	55	5	60,716
2015	53,725	6,222	54	5	60,006
2014	53,277	6,168	54	5	59,504
2013	52,908	6,128	54	6	59,096
2012	52,586	6,033	82	6	58,707
2011	52,574	5,657	86	6	58,323
2010	52,535	5,595	90	6	58,226

Ten Largest Retail Customers

FY 2010 & FY 2019

Customer	2010				2019			
	Consumption (100g)	Total Annual Revenue	Percent of 2010 Water Sales Revenue	2010 Ranking	Consumption (100g)	Total Annual Revenue	Percent of 2019 Water Sales Revenue	2019 Ranking
Auriga Polymers, Inc. (Invista)	3,769,430	\$ 1,095,605	4.27%	1	2,992,180	\$ 1,522,603	3.84%	1
Milliken & Company	1,387,925	583,129	2.27%	2	905,939	625,823	1.58%	2
Spartanburg Regional Medical Center	901,991	226,057	0.88%	3	905,034	365,996	0.92%	3
Wofford College	752,279	188,635	0.73%	4	728,678	320,580	0.81%	4
Michelin North America	538,261	225,776	0.88%	7	663,420	450,735	1.14%	5
Pet Inc. Dairy Division	610,989	256,154	1.00%	6	623,385	429,313	1.08%	6
Spartanburg Sanitary Sewer District	-	-	-	-	535,111	374,628	0.94%	7
R R Donnelley & Sons	504,556	212,403	0.83%	8	510,656	351,955	0.89%	8
BASF Corporation	438,104	184,061	0.72%	10	480,957	328,808	0.83%	9
Kohler Company	454,500	190,704	0.74%	9	331,650	227,972	0.57%	10
Spartanburg Housing Authority	680,822	188,804	0.74%	5				
TOTALS	10,038,857	\$ 3,351,328	13.06%		8,677,010	\$ 4,998,413	12.60%	

Wholesale Water Customers in Charge and Volume Order

FY 2019

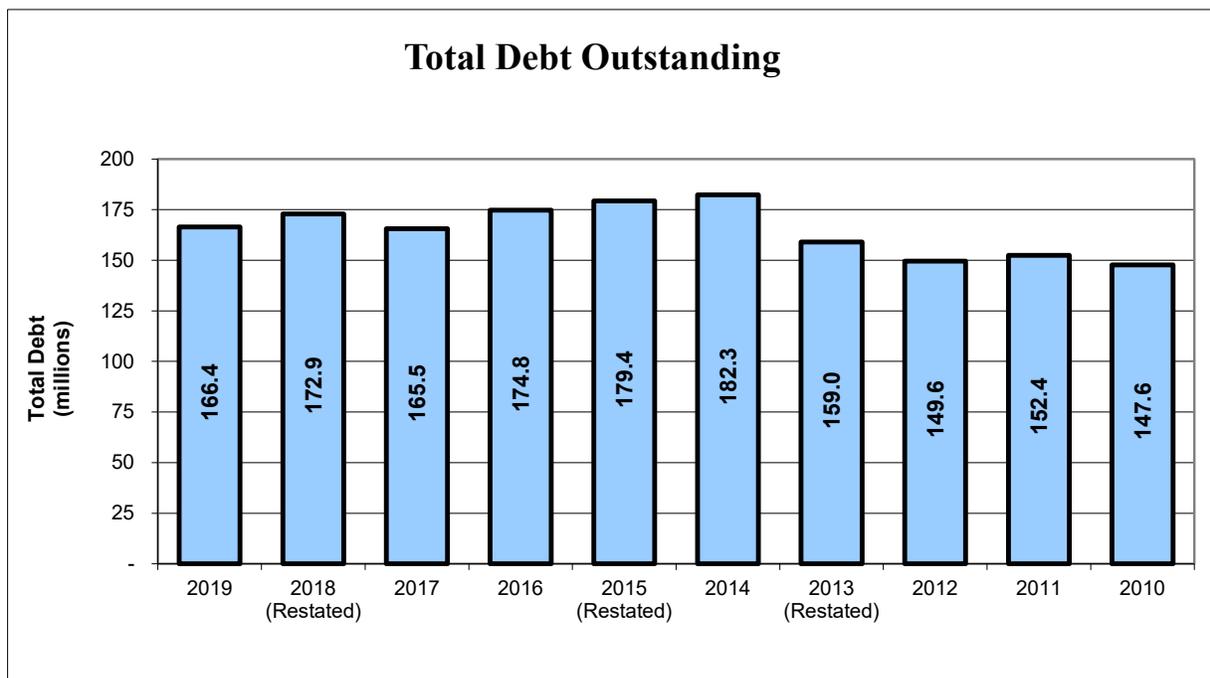
CUSTOMER	Billable Consumption (100g)	Percent to Total Consumption	Billable Charges	Base Charges	Total Charges	Percent to Total Water Sales Revenue
Liberty-Chesnee-Fingerville Water District	4,807,816	6.75%	\$ 782,349	\$ 6,442	\$ 788,791	1.99%
Metropolitan Sub-District "B"	2,149,350	3.02%	349,792	3,178	352,970	0.89%
Goucher Water Company	2,091,218	2.93%	340,323	1,872	342,195	0.86%
Meansville-Riley Water Company	1,031,255	1.45%	167,805	2,436	170,241	0.43%
Town of Jonesville	575,395	0.81%	93,625	1,589	95,214	0.24%
	10,655,034	14.96%	\$ 1,733,894	\$ 15,517	\$ 1,749,411	4.41%

Debt Capacity

Debt Outstanding

FY 2010 to FY 2019

Fiscal Year	Revenue Bonds	Note Payable	Total Outstanding Debt	Per Capita*	As Share of Personal Income
2019	\$ 166,405,391	\$ -	\$ 166,405,391	\$ 542	1.40%
2018 (Restated)	172,935,781	-	172,935,781	574	1.71%
2017	165,548,614	-	165,548,614	557	1.59%
2016	174,780,524	-	174,780,524	595	1.70%
2015 (Restated)	179,365,605	-	179,365,605	611	1.75%
2014	182,275,761	-	182,275,761	626	1.79%
2013 (Restated)	158,965,621	12,500	158,978,121	551	1.64%
2012	149,528,318	62,500	149,590,818	523	1.64%
2011	152,334,685	112,500	152,447,185	536	1.70%
2010	147,478,536	162,500	147,641,036	515	1.75%



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

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

FY 2010 to FY 2019

	2019	2018 (Restated)	2017	2016	2015 (Restated)	2014	2013(Restated)	2012	2011	2010
Net Income	\$ 42,272,030	\$ 40,855,351	\$ 42,221,469	\$ 39,841,136	\$ 37,543,394	\$ 34,169,573	\$ 31,791,651	\$ 31,278,849	\$ 29,990,312	\$ 26,851,329
Operating revenues before depreciation and amortization	(26,464,111)	(25,633,608)	(23,516,057)	(23,292,434)	(21,508,056)	(20,746,447)	(20,963,353)	(20,834,329)	(19,662,616)	(19,645,463)
Operating income before depreciation and amortization	15,777,919	15,221,743	18,705,412	16,548,702	16,035,338	13,423,126	10,828,298	10,444,520	10,327,694	7,205,866
Depreciation	(8,333,554)	(7,915,554)	(7,872,092)	(7,244,640)	(6,936,967)	(6,527,267)	(6,040,620)	(5,834,829)	(5,615,089)	(5,491,953)
Amortization of bond cost	-	-	-	-	(6,936,967)	(176,290)	-	(110,011)	(148,785)	(154,984)
Operating Income	7,444,365	7,306,189	10,833,320	9,304,062	9,098,371	6,719,569	4,787,678	4,499,680	4,563,820	1,558,929
Nonoperating Revenues	6,259,652	4,981,061	4,233,792	4,282,617	4,061,002	4,007,220	3,473,630	3,285,481	3,314,508	3,241,482
Nonoperating Expenses	(5,894,814)	(5,984,629)	(7,798,600)	(8,097,263)	(8,566,764)	(6,664,711)	(6,241,109)	(7,577,111)	(7,691,313)	(6,837,042)
Payments to Other Governments	(1,021,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,100,000)	(1,200,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)
Capital Contributions	1,190,543	676,992	923,529	1,253,314	378,286	446,147	649,697	221,209	533,419	486,252
Net Income (Loss) Per Financial Statements	\$ 7,978,746	\$ 5,979,613	\$ 7,192,041	\$ 5,742,730	\$ 3,870,865	\$ 3,308,225	\$ 1,269,896	\$ (970,741)	\$ (679,566)	\$ (2,950,379)
Income Available for Debt Service	\$ 7,978,746	\$ 5,979,613	\$ 7,192,041	\$ 5,742,730	\$ 3,870,865	\$ 3,308,225	\$ 1,269,896	\$ (970,741)	\$ (679,566)	\$ (2,950,379)
Net Income (Loss) Per Financial Statements	(61,463)	(108,241)	(137,449)	(80,853)	(76,468)	(53,650)	(65,388)	(25,597)	(5,728)	(61,702)
Less: (Gain)/loss on sale of fixed assets	(957,202)	(469,651)	(78,853)	(2,853)	(672)	(1,894)	(7,552)	(32,845)	(79,324)	(133,225)
Less: Restricted investment income	(136,717)	(52,709)	-	-	-	-	-	-	-	-
Less: OPEB Adjustment	(1,190,543)	(676,992)	(923,529)	(1,253,314)	(378,256)	(446,147)	(649,697)	(221,209)	(533,419)	(486,252)
Less: Capital contributions	(86,285)	1,029,849	1,000,000	200,000	400,000	-	-	600,000	500,000	-
Less: Transfers into rate stabilization fund	500,000	-	-	-	-	-	-	-	-	-
Plus: Transfers out of rate stabilization fund	-	(1,029,849)	(1,000,000)	(200,000)	(400,000)	290,000	700,000	(600,000)	(600,000)	220,000
Plus: Excess transfers in over out	8,333,554	7,915,554	7,872,092	7,244,640	6,936,967	6,527,267	6,040,620	5,834,829	5,615,089	5,491,953
Plus: Depreciation	-	-	-	-	-	-	-	-	-	-
Plus: Tap and meter purchase	-	-	-	-	-	-	-	-	-	-
Plus: Interest expense	5,894,814	5,516,898	7,677,708	8,097,263	8,178,983	6,638,374	6,182,991	7,557,925	7,670,534	6,819,730
Plus: Payments to other governments	1,021,000	1,000,000	1,000,000	1,000,000	1,100,000	1,200,000	1,400,000	1,400,000	1,400,000	1,400,000
Plus: Pension Adjustment	510,949	1,079,626	810,680	161,415	225,898	-	-	-	-	-
Plus: Amortization of Bond Costs	-	-	-	-	-	-	-	110,011	148,785	154,984
Plus: Bond Issuance Costs	-	467,731	120,892	-	387,781	-	-	-	-	-
Net Earnings per Revenue Bond Covenant	\$ 21,806,853	\$ 20,651,829	\$ 23,533,592	\$ 20,909,028	\$ 20,245,098	\$ 17,462,175	\$ 14,870,870	\$ 13,652,373	\$ 13,536,371	\$ 10,455,109
Revenue Bond Debt Service	\$ 11,990,692	\$ 11,118,019	\$ 12,987,256	\$ 12,151,334	\$ 12,896,810	\$ 10,999,790	\$ 11,578,355	\$ 9,633,853	\$ 8,723,418	\$ 7,915,154
Revenue Bond Debt Service Coverage	1.82	1.86	1.81	1.72	1.57	1.59	1.28	1.43	1.55	1.32

Demographic and Economic Information

Spartanburg County Demographic Statistics

CY 2009 to CY 2018

Calendar Year	(1) July 1 Population	Personal Income (1)		(3) Median Age	(4) School Enrollment	(5) Unemployment Rate
		Total	Per Capita			
2018	313,888	\$ 13,543,549,000	\$ 43,148	37.8	50,706	3.1%
2017	306,854	12,798,599,000	41,709	38.2	48,659	3.7%
2016	301,463	11,501,469,000	38,686	38.5	47,825	3.4%
2015	297,302	10,738,530,000	33,600	38.4	47,298	5.8%
2014	293,542	10,252,621,000	34,946	38.5	47,306	6.4%
2013	290,969	10,033,000,000	35,040	38.5	46,846	7.3%
2012	288,745	9,819,000,000	33,518	35.5	44,174	8.8%
2011	286,236	9,241,000,000	31,873	38.1	42,552	9.5%
2010	284,307	8,959,000,000	31,512	37.7	44,398	11.7%
2009	286,822	8,460,000,000	29,494	37.5	43,036	12.4%

Data Sources:

(1) U.S. Census Bureau of Economic Analysis

(2) Local School Districts

(3) SC Works Online

Operating Information

Schedule of Capacity Fees and User Charges

FY 2019

A. Capacity Fees

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

* Negotiated by the System on an individual basis.

B. Volume Charge Schedule

<u>FY 2019 (per 100g)</u>		<u>FY 2018 (per 100g)</u>		<u>FY 2017 (per 100g)</u>	
Inside City	Outside City	Inside City	Outside City	Inside City	Outside City
\$ 0.3840	\$ 0.6720	\$ 0.3720	\$ 0.6510	\$ 0.3720	\$ 0.6510

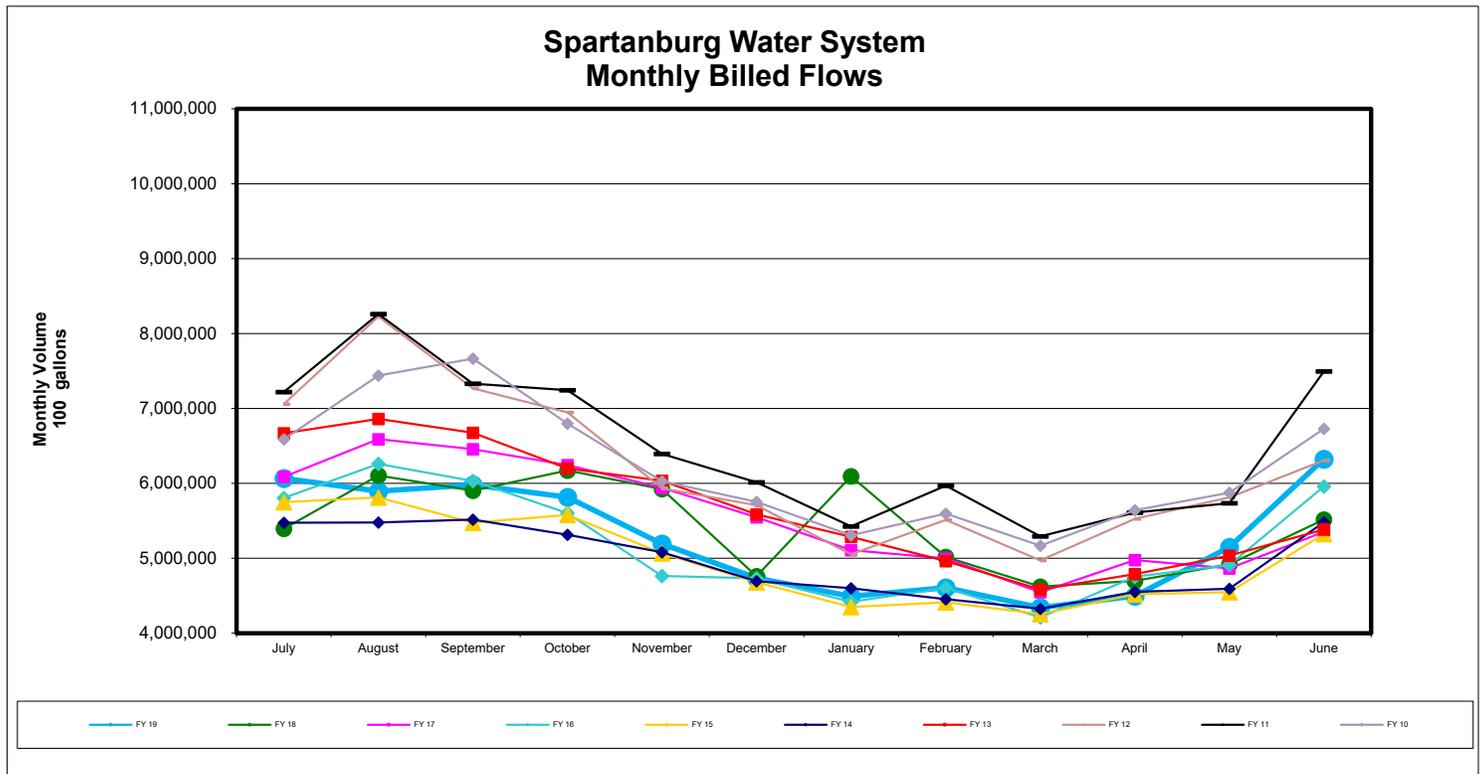
C. Base Charge Schedule

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

Monthly Billed Flows

FY 2010 to FY 2019

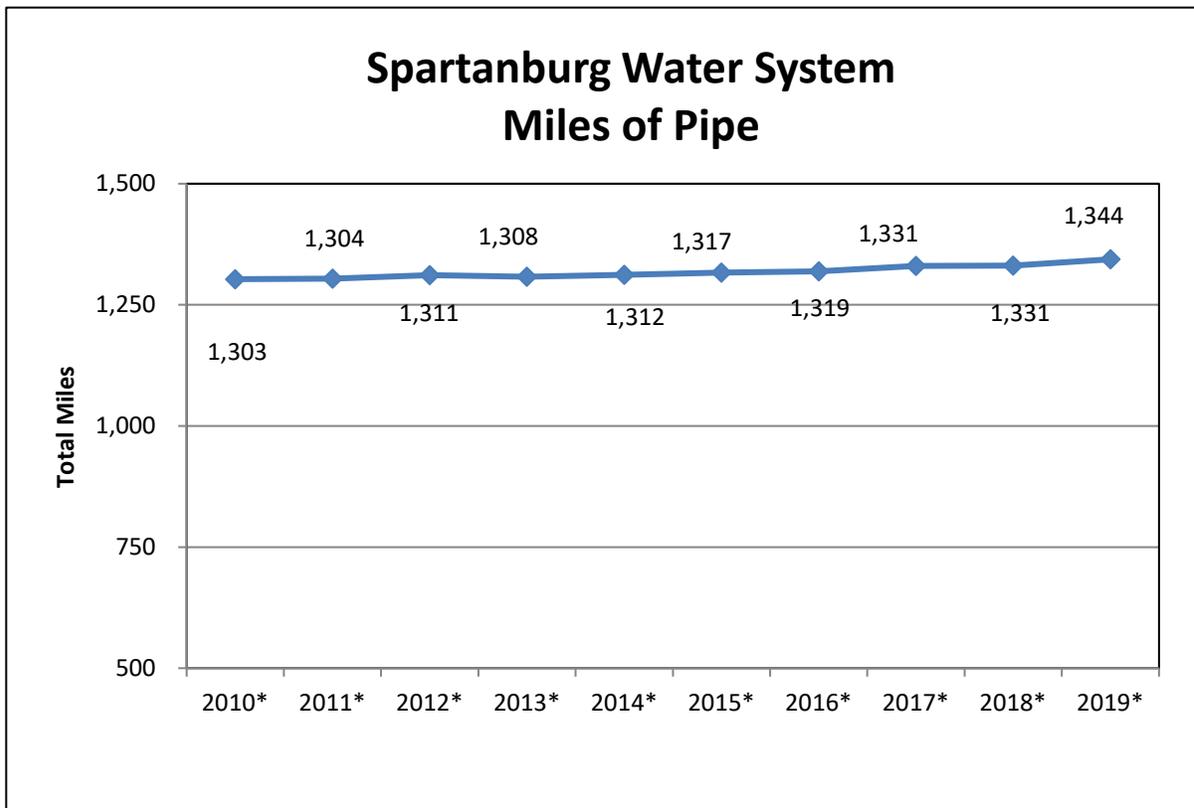
	FY 19	FY 18	FY 17	FY 16	FY 15	FY 14	FY 13	FY 12	FY 11	FY 10
July	6,067,793	5,395,706	6,088,214	5,807,015	5,749,777	5,475,433	6,670,367	7,058,343	7,220,466	6,587,821
August	5,896,026	6,104,241	6,590,613	6,260,429	5,813,737	5,477,610	6,861,036	8,227,872	8,260,630	7,439,696
September	5,981,533	5,903,860	6,456,245	6,032,274	5,476,039	5,517,310	6,675,780	7,269,053	7,332,856	7,665,060
October	5,816,235	6,173,076	6,244,105	5,605,127	5,579,288	5,313,389	6,198,231	6,948,143	7,243,836	6,796,987
November	5,193,096	5,923,349	5,941,578	4,763,743	5,066,774	5,080,431	6,035,792	5,935,765	6,392,802	6,030,307
December	4,735,642	4,760,858	5,546,630	4,734,020	4,682,253	4,693,878	5,585,786	5,707,798	6,013,301	5,754,721
January	4,491,522	6,096,227	5,108,333	4,418,270	4,349,883	4,601,511	5,286,420	5,053,001	5,425,080	5,309,632
February	4,608,557	5,019,571	4,998,154	4,605,049	4,412,636	4,453,878	4,964,144	5,514,223	5,968,194	5,598,288
March	4,342,226	4,622,697	4,547,215	4,212,417	4,255,821	4,326,777	4,584,177	4,971,912	5,293,037	5,168,228
April	4,496,731	4,697,325	4,975,455	4,754,348	4,520,737	4,551,407	4,788,188	5,527,412	5,612,120	5,641,800
May	5,146,412	4,920,063	4,865,612	4,911,028	4,549,681	4,592,912	5,036,109	5,812,840	5,734,609	5,875,595
June	6,326,430	5,518,175	5,351,709	5,958,364	5,325,321	5,481,856	5,383,932	6,306,474	7,493,189	6,728,006
	63,102,203	65,135,148	66,713,863	62,062,084	59,781,947	59,566,392	68,069,962	74,332,836	77,990,120	74,596,141



Miles of Pipe

FY 2010 to FY 2019

Fiscal Year	Miles of Pipe
2019*	1,344
2018*	1,331
2017*	1,331
2016*	1,319
2015*	1,317
2014*	1,312
2013*	1,308
2012*	1,311
2011*	1,304
2010*	1,303

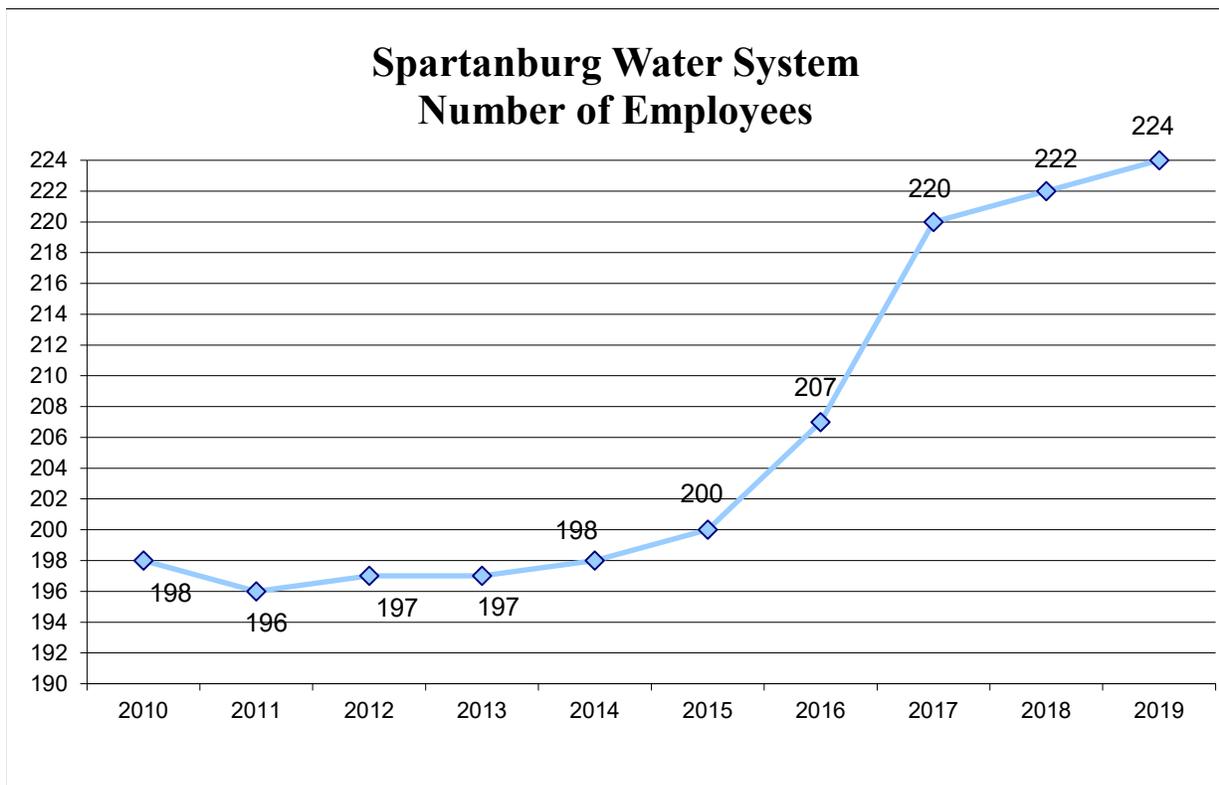


* The change in the miles of pipe graph is due to the net effect of additional miles, less updates for abandonment and deletion in the GIS Infrastructure total.

Number of Employees

FY 2010 to FY 2019

Fiscal Year	Number of Employees
2019	224
2018	222
2017	220
2016	207
2015	200
2014	198
2013	197
2012	197
2011	196
2010	198



* Numbers based on Operating Budget Employee Count.

Annual Rainfall

FY 2010 to FY 2019

