



**SPARTANBURG WATER SYSTEM
SPARTANBURG, SOUTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDING JUNE 30, 2017**

I. INTRODUCTORY SECTION

**SPARTANBURG WATER SYSTEM
SPARTANBURG, SOUTH CAROLINA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017**

**SUBMITTED BY:
FINANCE DEPARTMENT**

SPARTANBURG WATER SYSTEM
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

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Spartanburg Water System Officials

List of Commissioners and Senior Management Staff

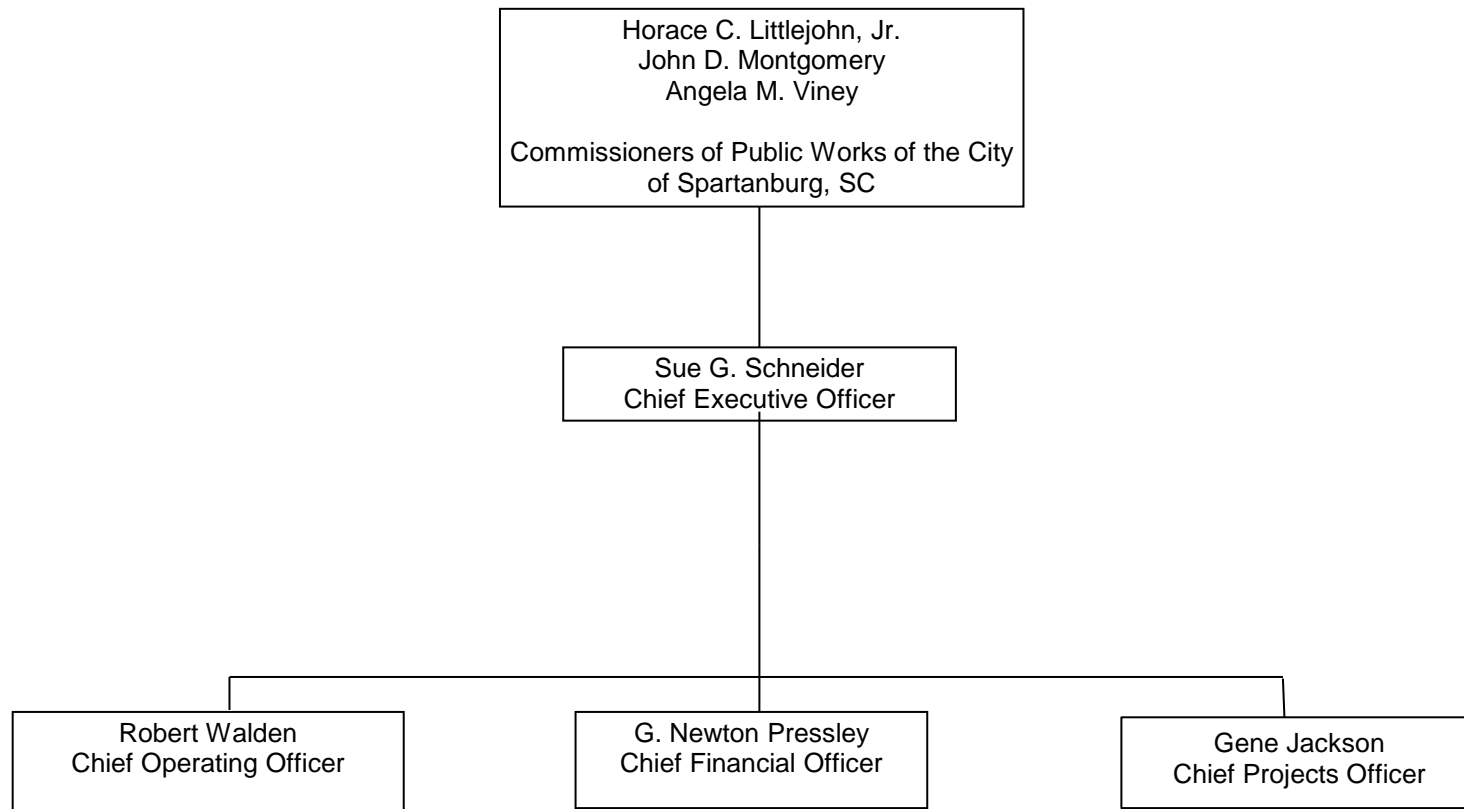
Commissioners

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

Senior Management Staff

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

Spartanburg Water System Organization Chart





Letter of Transmittal
December 1, 2017

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, 2017. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System's management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

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

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

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

PROFILE OF THE SYSTEM

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

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

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

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

LOCAL ECONOMY

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

The city serves as the national headquarters for Denny's, QS/1, and Advance America. The Chapman Cultural Center serves Spartanburg's cultural community for visual and performing arts, science and history. The 86,000-square-foot center is in downtown Spartanburg, adjacent to Barnet Park. 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 2017 was 4.2%, as compared with the state rate of 4.2% and the national rate of 4.5%.

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 27, 2017 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, 2017 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 2017 was \$7,192,041, an 12.0% increase for the fiscal year. The customer base increased by 706 accounts, or 1.2%, for fiscal year 2017. The average annual growth rate over the past five years was 0.9%. The System's revenue bond covenants require debt service coverage of 110% for Revenue Bonds. The debt service coverage ratio was 181% for fiscal year 2017. 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, 2017 balance of \$5,145,723.

AWARDS

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Spartanburg Water System for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the fourteenth 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.

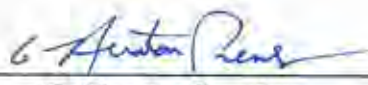
ACKNOWLEDGEMENTS

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, 2016

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

Executive Director/CEO

II. FINANCIAL SECTION

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Spartanburg Water System as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Spartanburg Water System's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2017 and 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and employer contributions for retiree health plan, and schedule of the System's proportionate share of the collective net pension liability and employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

McAfee, Schwartz, Halliday & Co.

Spartanburg, South Carolina
December 1, 2017

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, 2017. 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, 2017, total assets of \$255,223,663 and deferred outflows of resources of \$7,577,207 exceeded total liabilities of \$195,454,264 and deferred inflows of resources of \$0 by \$67,346,606. For the fiscal year 2016, total assets of \$254,976,421 and deferred outflow of resources of \$8,451,473 exceeded total liabilities of \$201,838,826 and deferred outflows of resources of \$1,434,503 by \$60,154,565.

For the fiscal year ended June 30, 2017, the increase in net position, before capital contributions, was \$6,268,512. The System's increase in net position, after capital contributions of \$923,529, was \$7,192,041. For the fiscal year 2016, the increase in net position, before capital contributions, was \$4,489,416. The System's increase in net position, after capital contributions of \$1,253,314, was \$5,742,730.

For fiscal year 2017, operating revenues increased by \$2,380,333 to \$42,221,469 or 6.0%, nonoperating revenues decreased by \$48,825 to \$4,233,792 or 1.1%, and total expenses increased by \$552,412 to \$40,186,749 or 1.4%. For fiscal year 2016, operating revenues increased by \$2,297,742 to \$39,841,136 or 6.1%. Nonoperating revenues increased by \$221,615 to \$4,282,617 or 5.5%. Total expenses increased by \$1,522,550 to \$39,634,337 or 4.0%.

The System's revenue bond covenants require debt service coverage of 110% for all revenue bonds. The fiscal year 2017 total system revenue bond debt service coverage ratio was 181%. The fiscal year 2016 total system revenue bond debt service coverage ratio was 172%.

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, 2017, 2016 and 2015. 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

	2017	2016	2015 (Restated)
Assets			
Current and Noncurrent Assets	\$ 58,745,977	\$ 63,289,868	\$ 62,380,776
Capital Assets - Net of Accumulated Depreciation	196,477,686	191,686,553	189,871,468
Total Assets	\$ 255,223,663	\$ 254,976,421	\$ 252,252,244
Deferred Outflow of Resources			
Bond Defeasance Loss	\$ 4,050,096	\$ 5,782,626	\$ 6,246,655
Deferred Outflows from Pension	3,527,111	2,668,847	1,512,474
Total Deferred Outflows of Resources	\$ 7,577,207	\$ 8,451,473	\$ 7,759,129
Liabilities			
Current Liabilities	\$ 13,753,461	\$ 13,239,227	\$ 11,308,944
Noncurrent Liabilities	181,700,803	188,599,599	192,801,160
Total Liabilities	\$ 195,454,264	\$ 201,838,826	\$ 204,110,104
Deferred Inflows of Resources			
Deferred Inflows from Pension	\$ -	\$ 1,434,503	\$ 1,489,434
Net Position			
Net Investment in Capital Assets	\$ 76,087,316	\$ 71,655,431	\$ 68,397,749
Unrestricted	(8,740,710)	(11,500,866)	(13,985,914)
Total Net Position	\$ 67,346,606	\$ 60,154,565	\$ 54,411,835

In fiscal year 2017, current and noncurrent assets decreased by \$4,543,891 to \$58,745,977, due to a decrease in accounts receivable – net of allowance for doubtful accounts and restricted cash offset by an increase in cash, inventories, and restricted investments. In fiscal year 2016, there was an increase in current and noncurrent assets of \$909,092 to \$63,289,868 primarily due to an increase in accounts receivable – net of allowance for doubtful accounts.

Capital assets increased by \$4,791,133 to \$196,477,686 in fiscal year 2017 and increased by \$1,815,085 to \$191,686,553 in fiscal year 2016. See Capital Assets section on page 9 for further explanation.

Current and noncurrent assets included cash and investments of \$48,786,086. The distribution by fund of the year-end balances for fiscal years 2017 and 2016 is provided below:

Fund	2017	2016
Operating	\$ 5,155,541	\$ 4,714,980
Debt Service Trust Account	11,308,931	14,175,403
Rate Stabilization	2,610,000	1,610,000
Depreciation	5,145,723	4,556,241
Capital Project Funds		
Capital	2,204,068	3,384,879
Water Line Repair/Replacement	3,014,160	767,169
Bond Funds	19,347,663	24,343,744
Total Cash and Investments	\$ 48,786,086	\$ 53,552,416

Current and noncurrent assets also included receivables of \$7,991,425, with the substantial portion associated with customer accounts receivable, net of allowance for doubtful accounts, of \$6,973,687 and the intercompany receivable from Spartanburg Sanitary Sewer District of \$994,827. This is compared to the fiscal year 2016 receivables of \$8,110,865, with customer accounts receivable, net of allowance for doubtful accounts, of \$7,097,863, and intercompany receivable from Spartanburg Sanitary Sewer District of \$982,397.

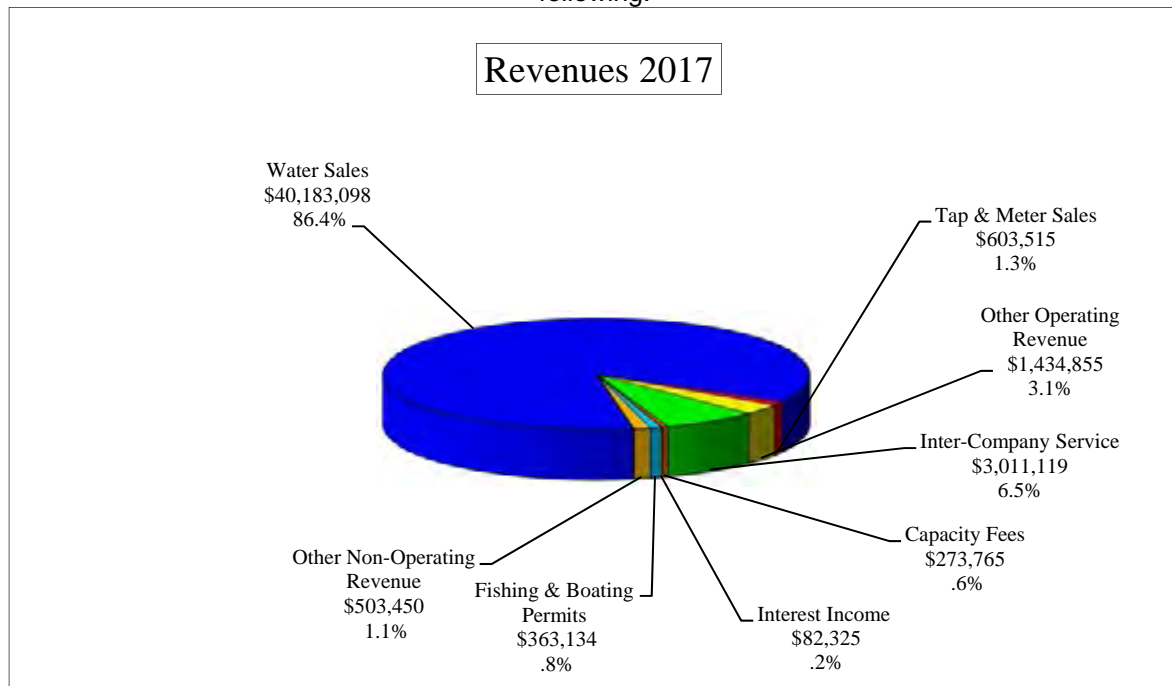
Current liabilities as of June 30, 2017 included accounts payable from operating funds of \$605,113, accounts payable from capital funds of \$1,058,529, and retainage payable of \$100,224. Current liabilities as of June 30, 2016 included accounts payable from operating funds of \$793,585, accounts payable from capital funds of \$1,046,767, and retainage payable of \$17,946. The current portion of long-term debt totaled \$6,025,000 and \$5,225,000 at June 30, 2017 and 2016, 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, 2017, 2016 and 2015.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2017	2016	2015 (Restated)
Revenues			
Operating Revenues			
Water Sales	\$ 40,183,098	\$ 37,898,737	\$ 35,785,630
Tap & Meter Sales	603,515	588,520	471,340
Other Operating Revenues	1,434,856	1,353,879	1,286,424
	<u>42,221,469</u>	<u>39,841,136</u>	<u>37,543,394</u>
Nonoperating Revenues			
Intercompany Services	3,011,119	3,145,181	2,977,887
Other Nonoperating Revenues	1,222,673	1,137,436	1,083,115
	<u>4,233,792</u>	<u>4,282,617</u>	<u>4,061,002</u>
Total Revenues	<u>46,455,261</u>	<u>44,123,753</u>	<u>41,604,396</u>
Expenses			
Operating Expenses, Before Depreciation	23,516,057	23,292,434	21,508,056
Depreciation Expense	7,872,092	7,244,640	6,936,967
Nonoperating Expenses	8,798,600	9,097,263	9,666,764
Total Expenses	<u>40,186,749</u>	<u>39,634,337</u>	<u>38,111,787</u>
Excess, Before Capital Contributions	6,268,512	4,489,416	3,492,609
Capital Contributions	<u>923,529</u>	<u>1,253,314</u>	<u>378,256</u>
Change in Net Position	7,192,041	5,742,730	3,870,865
Net Position, Beginning of Year-Restated (2015)	<u>60,154,565</u>	<u>54,411,835</u>	<u>50,540,970</u>
Net Position, End of Year	<u><u>\$ 67,346,606</u></u>	<u><u>\$ 60,154,565</u></u>	<u><u>\$ 54,411,835</u></u>

Revenues (excluding capital contributions) for the fiscal year ended June 30, 2017 were comprised of the following:



Water sales were comprised of metered volume charges of \$32,030,512, base charges of \$8,083,981, and other miscellaneous billings of \$68,606. Water sales increased by \$2,284,361 or 6.0%. Volume charges increased by 0.5%, which reflected the increase in billed volume as follows:

- The billed volume for fiscal year 2017 was 66,713,863 (100 gallons), an increase of 4,651,779 or 7.5%, over fiscal year 2016. The billed volume for fiscal year 2016 was 62,062,084 (100 gallons), an increase of 2,280,137 or 3.8%, over fiscal year 2015 primarily due to an increase in irrigation use. The change in billed volume for fiscal years 2017 and 2016 was distributed among the following customer classes:

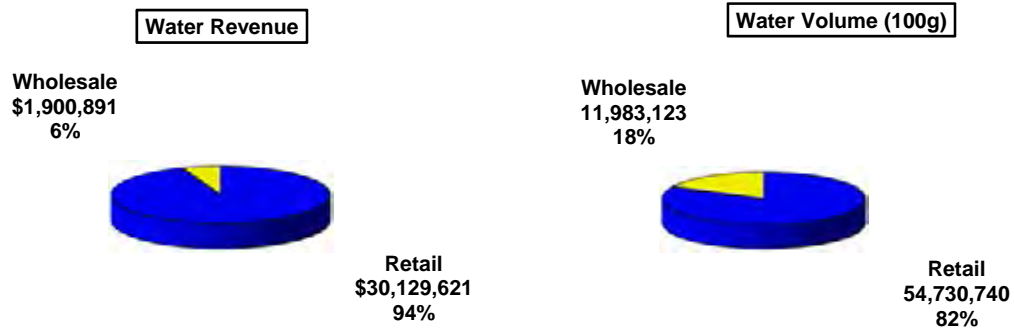
	FY 16 to FY17 Incr./Decr. (100g)	% of Incr./Decr.	FY 15 to FY16 Incr./Decr. (100g)	% of Incr./Decr.
Retail				
Residential	2,397,926	8.3%	575,516	2.0%
Commercial	1,212,817	8.7%	840,509	6.5%
Industrial	261,947	3.2%	242,399	3.1%
Total Retail	3,872,690	7.6%	1,658,424	2.3%
Wholesale	779,089	7.0%	621,713	5.9%
System Total	4,651,779	7.5%	2,280,137	3.8%

The fiscal year 2017 volume increase resulted primarily from the increase in customers and additional irrigation.

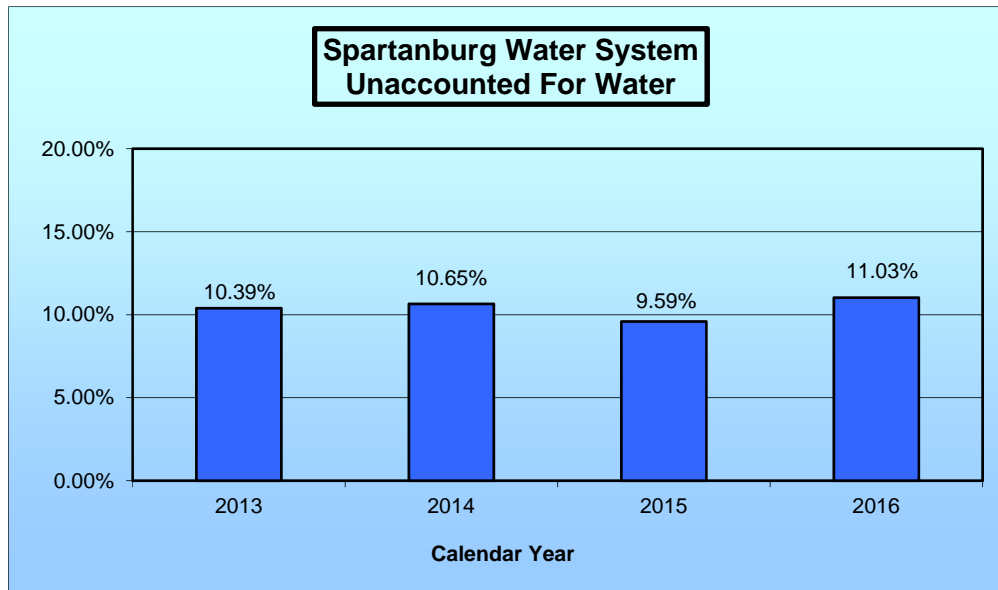
Base charge revenue for fiscal year 2017 increased by \$1,906,046 over fiscal year 2016, resulting from the increase in base charge rates effective August 1, 2016 and the growth in the residential customer base. The increase from fiscal year 2017 over fiscal year 2015 was \$2,145,167.

Fiscal year 2017 volume charges are further analyzed by the following charts:

Fiscal Year 2017 Metered Volume Charges – Revenue vs. Volume



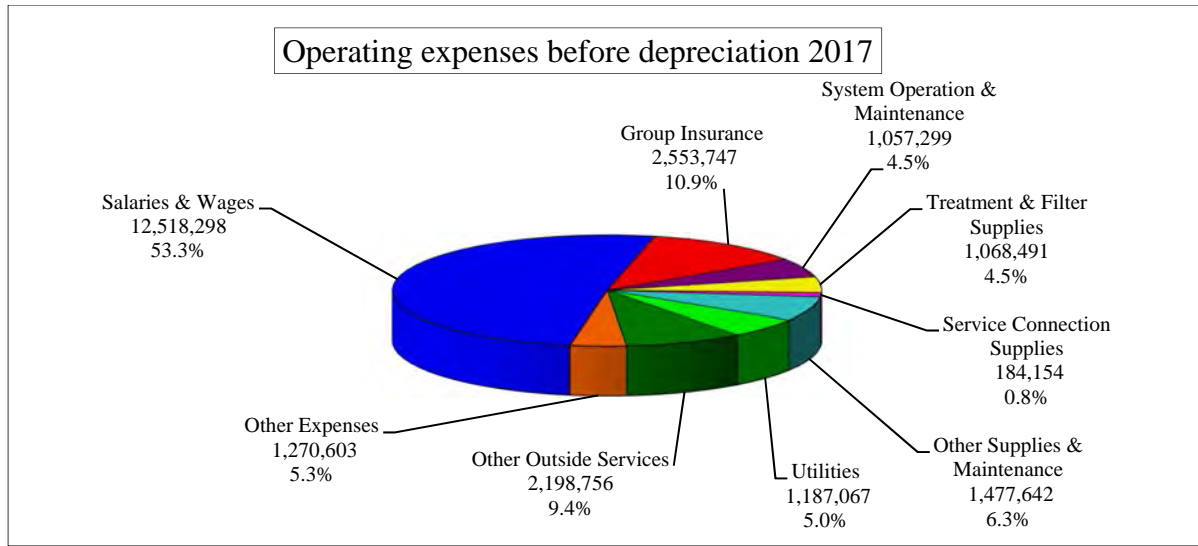
The System maintains a comprehensive tracking program to monitor Unaccounted for Water, as reflected graphically, by calendar year.



In fiscal year 2017, other nonoperating revenue increased by \$85,237, due to an increase in capacity fees of \$42,875, interest income of \$75,837, administrative income of \$11,659 and gain from sale of equipment of \$56,596, offset by a decrease in lake revenue of \$10,374 and miscellaneous income of \$91,356. In fiscal year 2016, other nonoperating revenue increased by \$54,321, due to an increase in capacity fees of \$41,486, lake revenue of \$10,774, miscellaneous income of \$21,676 and gain from sale of equipment of \$4,385, offset by a decrease in interest income of \$7,862 and administrative income of \$16,138.

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

Operating expenses before depreciation were comprised of the following:



The following table provides a comparison of 2017, 2016 and 2015 operating expenses before depreciation for major expense categories.

Comparison of operating expenses before depreciation

Expense Category	Increase / (Decrease)			
	2017	2016	Amount	% of Change
Salaries and wages	\$12,518,298	\$11,410,290	\$1,108,008	9.7%
Group insurance	2,553,747	2,505,978	47,769	1.9%
System operation and maint.	1,057,299	1,466,679	(409,380)	-27.9%
Treatment and filter supplies	1,068,491	1,535,350	(466,859)	-30.4%
Service connection supplies	184,154	277,440	(93,286)	-33.6%
Other supplies and maintenance	1,477,642	1,548,649	(71,007)	-4.6%
Utilities	1,187,067	1,208,889	(21,822)	-1.8%
Other outside services	2,198,756	2,330,548	(131,792)	-5.7%
Other expenses	1,270,603	1,008,611	261,992	26.0%
Total operating expenses before depreciation	\$23,516,057	\$23,292,434	\$223,623	1.0%

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

Operating expenses before depreciation increased by 223,623 or 1.0% from fiscal year 2017 to 2016. The increase was \$1,784,378 or 8.3%, from fiscal year 2016 to fiscal year 2015, primarily due to Salaries and Wages, Treatment and Filter Supplies and Other Outside Services. Highlights of the 2017 – 2016 expense comparison are provided below:

- The Salaries and Wages increase resulted primarily from merit pay increases and an increase in retirement contributions. These increases were offset by cost savings associated with current year vacancies.
- The System Operations and Maintenance line item includes supply cost and contracted maintenance applicable to the water filtration plants and distribution system. The decrease is primarily the result of lower costs associated with line breaks and repairs during fiscal year 2017.
- The Treatment and Filter Supplies decrease was due to reduced demand for water quality requirements.
- The variance in Service Connection Supplies is due to the decrease in water service repairs for the system during fiscal year 2017.
- The increase in Other Expenses is primarily associated with the increase in Workers Compensation and Bad Debt Expense.
- The other line items reflected no significant change in the comparison of fiscal year 2017 to fiscal year 2016.

Nonoperating expenses decreased by \$298,663 or 3.3%, due to the decrease in interest and paying agent fees of \$419,555 offset by the increase in bond issuance costs of \$120,892.

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 2017 totaled \$923,529 and were comprised of donated lines of \$816,336 and cash payments of \$107,193. Capital contributions for fiscal year 2016 totaled \$1,253,314 and were comprised of donated lines of \$755,199 and cash payments of \$498,115. The capital contributions received in cash were comprised of participation fees and miscellaneous project contributions.

Capital Assets

At June 30, 2017, the System had \$196,477,686 invested in capital assets, as provided in the schedule below:

Capital Assets at Year-End

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Transmission, Distribution and Treatment Facilities	\$ 181,686,308	\$ 178,929,248	\$ 179,321,467
Other Facilities & Property	5,106,039	3,021,702	3,073,805
Vehicles, Office & Maintenance Equipment	6,673,708	5,436,004	4,209,109
Construction in Progress	3,011,631	4,299,599	3,267,086
Capital Assets - Net of Accumulated Depreciation	<u>\$ 196,477,686</u>	<u>\$ 191,686,553</u>	<u>\$ 189,871,468</u>

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

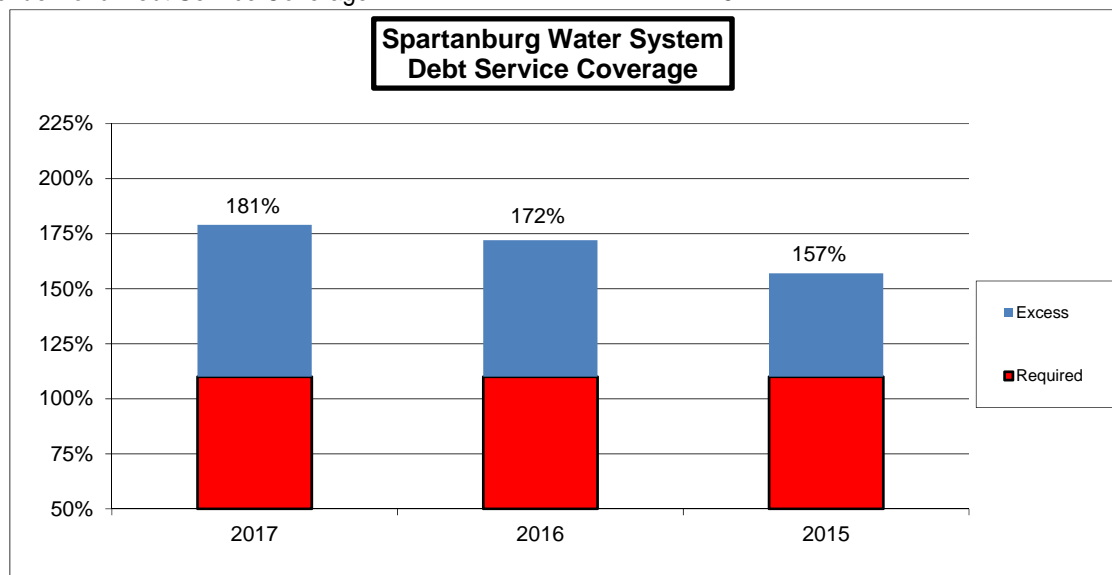
Significant changes during fiscal year 2016 included a net decrease in Transmission, Distribution, and Treatment Facilities. The additions of \$755,199 in donated lines, various waterline extensions and rehab of \$804,559, California Avenue and SC Highway 9 SCDOT Bridges project of \$1,177,023; capitalized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

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	2017	2016	2015 (Restated)
Net Earnings per Revenue Bond Covenant	\$ 23,533,592	\$ 20,909,242	\$ 20,245,098
Revenue Bond Debt Service	12,997,256	12,151,334	12,896,811
Revenue Bond Debt Service Coverage	1.81	1.72	1.57



Current Year Transactions

2017A Refunding Revenue Bonds

The System issued the Series 2017A Refunding Revenue Bonds to provide for the bank placed, forward refunding of the Series 2007A bonds. The Series 2017A bonds, dated June 1, 2017, in the amount of \$59,080,000 have an interest rate of 1.75%, resulting in a net present value savings of \$9,755,514 or 15.9%.

Outstanding Debt at Year-End

The System had \$161,935,000 in short-term and long-term revenue bond debt outstanding at year-end, as scheduled below:

	Average Yield	Outstanding Debt		
		2017	2016	2015
Long-term Debt				
2007A Water System Refunding Revenue Bond	4.32%	\$ -	\$ 65,710,000	\$ 69,505,000
2007B Water System Revenue Bond	4.39%	4,180,000	4,180,000	4,180,000
2009 Water System Revenue Bond	4.97%	33,935,000	33,935,000	33,935,000
2012 Water System Revenue Bond	2.23%	5,700,000	6,180,000	6,650,000
2013 Water System Revenue Bond	4.62%	27,255,000	27,255,000	27,255,000
2015A Water System Refunding Revenue Bond	3.40%	26,085,000	26,085,000	26,085,000
2015B Water System Refunding Revenue Bond	3.40%	5,700,000	6,255,000	6,255,000
2017A Water System Refunding Revenue Bond	1.75%	59,080,000	-	-
Total Debt Outstanding		\$ 161,935,000	\$ 169,600,000	\$ 173,865,000

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

Bond Ratings

The System maintained the following ratings during fiscal year 2017:

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

Financial Planning

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

The System Commission approved a balanced Annual Operating Budget for fiscal year 2018 in the total amount of \$44,475,535 which represents a 1.9% increase over the previous year's budgeted revenues and expenditures. The approved budget included funding of reserves for the Depreciation Fund - \$1,700,000, Capital Fund - \$1,000,000 and the Distribution System Rehab Fund - \$900,000.

Other Significant Matters

- *Replacement of Aging Infrastructure*

The System has enhanced efforts to address aging water mains. Various water main replacement projects were completed by the Maintenance Department and outside contractors during fiscal year 2017, with ongoing projects captured in the Construction in Progress.

- *2017B Refunding and Improvement Revenue Bonds*

The system issued the Series 2017B Refunding and Improvement Revenue Bonds, dated August 24, 2017, in the amount of \$45,930,000, to provide funds for the refunding of the Series 2007B and Series 2009 bonds. The net present value savings on this transaction was as follows: 2007B refunding (\$444,269) and the Series 2009 refunding (\$4,724,543), for a total savings of \$5,168,812 or 13.56%. The new money portion of the Series 2017B Bonds will be used to fund \$15,000,000 of distribution system rehabilitation projects and various improvements to the System's water treatment facilities. For connection with the issuance, the Water System received bond ratings of Aa3 and AA from Moody's and Standard and Poor's, respectively. This represents an affirmation of the Moody's rating of Aa3 and an upgrade of the Standard and Poor's rating from AA- to AA.

- *Monthly Billing*

Spartanburg Water System and Sanitary Sewer District will introduce monthly billing in early calendar year 2018. Most customers are currently billed on a bimonthly basis. This billing change will benefit customers by providing timelier usage information and allowing earlier leak detection. 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, 2017 AND 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2017	2016
Assets		
Current assets		
Cash	\$ 16,096,678	\$ 13,527,840
Investments	5,301	5,252
Accounts receivable - net of allowance for doubtful accounts of \$215,849 and \$206,697 as of 2017 and 2016, respectively	6,973,687	7,097,863
Loans receivable	22,911	30,605
Other receivables	994,827	982,397
Inventories	1,968,466	1,626,587
Total current assets	26,061,870	23,270,544
Noncurrent assets		
Restricted cash	11,314,196	25,843,921
Restricted investments	21,369,911	14,175,403
Capital assets - net of accumulated depreciation	196,477,686	191,686,553
Total noncurrent assets	229,161,793	231,705,877
Total Assets	255,223,663	254,976,421
Deferred Outflows of Resources		
Deferred loss on refundings	4,050,096	5,782,626
Deferred amounts related to pensions	3,527,111	2,668,847
Total Deferred Outflows of Resources	7,577,207	8,451,473

SPARTANBURG WATER SYSTEM
STATEMENTS OF NET POSITION - CONTINUED
JUNE 30, 2017 AND 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2017	2016
Liabilities		
Current liabilities		
Accounts payable	1,763,866	1,858,298
Payable from restricted assets - customer deposits	1,679,086	1,500,176
Accrued salaries and wages	1,102,998	1,069,933
Accrued employee benefits	280,435	300,907
Accrued interest expense	460,277	619,488
Other payables	557,752	595,543
Sewer and water collections payable to others	1,884,047	2,069,882
Long-term debt - current portion	6,025,000	5,225,000
Total current liabilities	13,753,461	13,239,227
Noncurrent liabilities		
Net pension liability	22,142,905	19,039,448
Net other post-employment benefit obligation	34,284	4,627
Long-term debt - net of current portion	159,523,614	169,555,524
Total noncurrent liabilities	181,700,803	188,599,599
Total Liabilities	195,454,264	201,838,826
Deferred Inflows of Resources		
Deferred amounts related to pensions	-	1,434,503
Net Position		
Net investment in capital assets	76,087,316	71,655,431
Unrestricted	(8,740,710)	(11,500,866)
Total Net Position	\$ 67,346,606	\$ 60,154,565

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, 2017 AND 2016

	2017	2016
Operating Revenues		
Water sales	\$ 40,183,098	\$ 37,898,737
Private fire service rates	324,644	285,324
Cut-off service charges	311,134	361,531
Tap and meter sales	603,515	588,520
New account fees	224,503	157,350
Ice machine sales	456,662	406,833
Miscellaneous	117,913	142,841
	<u>42,221,469</u>	<u>39,841,136</u>
Operating Expenses		
Operating expenses before depreciation	23,516,057	23,292,434
Depreciation	7,872,092	7,244,640
	<u>31,388,149</u>	<u>30,537,074</u>
Operating Income	<u>10,833,320</u>	<u>9,304,062</u>
Nonoperating Revenues (Expenses)		
Capacity fees	273,765	230,890
Fishing and boating permits	363,134	373,508
Interest income	82,325	6,488
Miscellaneous	124,824	216,180
Intercompany services	3,011,119	3,145,181
Administrative income	241,176	229,517
Payments to other governmental units	(1,000,000)	(1,000,000)
Gain on sale of capital assets	137,449	80,853
Bond issuance costs	(120,892)	-
Interest and paying agent fees	(7,677,708)	(8,097,263)
	<u>(4,564,808)</u>	<u>(4,814,646)</u>
Increase in Net Position		
Before Capital Contributions	6,268,512	4,489,416
Capital Contributions	<u>923,529</u>	<u>1,253,314</u>
Increase in Net Position	7,192,041	5,742,730
Net Position - Beginning of Year	<u>60,154,565</u>	<u>54,411,835</u>
Net Position - End of Year	<u>\$ 67,346,606</u>	<u>\$ 60,154,565</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, 2017 AND 2016

	2017	2016
Cash Flows Provided (Used) by Operating Activities		
Cash received from customers	\$ 43,063,119	\$ 39,177,472
Cash paid to suppliers for goods and services	(8,884,100)	(8,816,555)
Cash paid to or for the benefit of employees	(14,412,331)	(13,626,303)
	<u>19,766,688</u>	<u>16,734,614</u>
Cash Flows Provided (Used) by Noncapital Financing Activities		
Intercompany services	3,011,119	3,145,181
Payments to other governmental units	(1,000,000)	(1,000,000)
	<u>2,011,119</u>	<u>2,145,181</u>
Cash Flows Provided (Used) by Capital and Related Financing Activities		
Capital contributions	107,193	498,115
Capacity fees	273,765	230,890
Acquisition and construction of capital assets	(11,848,370)	(8,306,705)
Proceeds from sale of capital assets	138,931	83,032
Proceeds from issuance of revenue bonds	129,510	-
Payments to advanced refundings escrow	(2,569,510)	-
Bond issuance costs	(120,892)	-
Repayments of bonds payable - revenue bonds	(5,225,000)	(4,265,000)
Interest and paying agent fees	(7,512,089)	(7,953,315)
	<u>(26,626,462)</u>	<u>(19,712,983)</u>
Cash Flows Provided (Used) by Investing Activities		
Interest income	<u>82,325</u>	<u>6,488</u>
Net Decrease in Cash and Cash Equivalents	(4,766,330)	(826,700)
Cash and Cash Equivalents - Beginning of Year	<u>53,552,416</u>	<u>54,379,116</u>
Cash and Cash Equivalents - End of Year	<u>\$ 48,786,086</u>	<u>\$ 53,552,416</u>

SPARTANBURG WATER SYSTEM
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating income	\$ 10,833,320	\$ 9,304,062
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	7,872,092	7,244,640
Pension expense	2,021,352	1,271,691
Nonoperating income	729,134	819,205
(Increase) decrease in assets:		
Accounts receivable	124,176	(1,655,307)
Loans receivable	7,694	(10,232)
Other receivables	(12,430)	(123,713)
Inventories	(341,879)	53,460
Deferred outflows related to pensions	(1,210,662)	(1,110,276)
Increase (decrease) in liabilities:		
Accounts payable	(94,432)	319,022
Customer deposits	178,910	202,170
Accrued salaries and wages	33,065	153,588
Accrued employee benefits	(20,472)	101,169
Accrued interest expense	(159,211)	66,978
Other payables	(37,791)	23,143
Sewer and water collections payable to others	(185,835)	104,213
Net other post-employment benefits obligation	29,657	(29,199)
Net Cash Provided (Used) by Operating Activities	<u>\$ 19,766,688</u>	<u>\$ 16,734,614</u>
Noncash Investing, Capital and Financing Activities		
Contribution of capital assets	\$ 816,336	\$ 755,199
Amortization included in interest expense	\$ 165,619	\$ 143,948
Disposal of assets	\$ 1,481	\$ 2,179
Current refunding		
Proceeds from revenue bond issue	\$ 58,950,490	\$ -
Defeased revenue bonds	\$ (61,520,000)	\$ -
Deferred loss on refunding	\$ 1,278,277	\$ -
Bond premium	\$ (1,278,277)	\$ -

SPARTANBURG WATER SYSTEM
STATEMENTS OF CASH FLOWS - CONTINUED
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of Cash and Investments as Shown on the Statements of Net Position and Cash Flow Statements		
Statement of net position classifications		
Current assets		
Cash	\$ 16,096,678	\$ 13,527,840
Investments	<u>5,301</u>	<u>5,252</u>
	<u>16,101,979</u>	<u>13,533,092</u>
Noncurrent assets		
Restricted cash	11,314,196	25,843,921
Restricted investments	<u>21,369,911</u>	<u>14,175,403</u>
	<u>32,684,107</u>	<u>40,019,324</u>
	<u>\$ 48,786,086</u>	<u>\$ 53,552,416</u>
Cash flow classifications		
Petty cash	\$ 4,917	\$ 4,917
Cash on hand	435,653	709,231
Cash deposits	26,970,304	38,657,613
Investments - cash equivalents	<u>21,375,212</u>	<u>14,180,655</u>
Total cash and cash equivalents	<u>\$ 48,786,086</u>	<u>\$ 53,552,416</u>

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Basis of Accounting

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

Use of Restricted Resources

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

Revenues and Expenses

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

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories

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

Capital Assets

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

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

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

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

Compensated Absences

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

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

Long-Term Liabilities

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

Deferred Outflows and Inflows of Resources

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Contributions

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

NOTE 2 - CASH DEPOSITS AND INVESTMENTS

Custodial credit risk - deposits - the System does not have a formal deposit policy for custodial credit risk which is the risk that in the event of a bank failure, the deposits may not be returned to the System. As of June 30, 2017 and 2016, the System was not exposed to custodial credit risk.

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

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

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

Level 1 - Investments reflect prices quoted in active markets.

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

Level 3 - Investments reflect prices based upon unobservable sources.

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

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 2 - CASH DEPOSITS AND INVESTMENTS - CONTINUED

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

The System had the following investments as of June 30, 2017 and 2016:

Investment Type	Maturity	Value		Rating	Fair Value Hierarchy
		2017	2016		
State treasurer's investment pool	<60 days	\$ 10,066,281	\$ 5,252	Not rated	N/A
Dreyfus Government Prime	<90 days	11,308,931	14,175,403	Aaa-mf	N/A
		<u>\$ 21,375,212</u>	<u>\$ 14,180,655</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.

	2017	2016
Restricted Assets for Customer Deposits		
Cash	<u>\$ 1,679,086</u>	<u>\$ 1,500,176</u>
Restricted assets for the Acquisition and Construction of Capital assets		
Cash	9,635,110	24,343,745
Investments	<u>10,060,980</u>	<u>-</u>
	<u>19,696,090</u>	<u>24,343,745</u>
Restricted Assets for Debt Service Reserve and Debt Service Funds		
Investments	<u>11,308,931</u>	<u>14,175,403</u>
	<u>\$ 32,684,107</u>	<u>\$ 40,019,324</u>

NOTE 3 - LOANS RECEIVABLE

The System provides a program whereby it finances participation and capacity fees for new customers. The loan terms are bi-monthly payments of one to ten years at interest rates of nine to twelve percent. These loans are secured by a recorded lien against the homeowner's real property. The balance of loans receivable from customers was \$22,911 and \$30,605 at June 30, 2017 and 2016, respectively.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets follows:

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 4 - CAPITAL ASSETS - CONTINUED

	June 30, 2015	Additions	Disposals	June 30, 2016
Capital Assets				
Nondepreciable				
Land	\$ 1,120,734	\$ -	\$ -	\$ 1,120,734
Construction in progress	3,267,087	3,752,110	2,719,598	4,299,599
Total nondepreciable	<u>4,387,821</u>	<u>3,752,110</u>	<u>2,719,598</u>	<u>5,420,333</u>
Depreciable				
Motor vehicles	3,216,211	790,556	50,796	3,955,971
Service and maintenance equipment	9,594,266	1,421,933	48,161	10,968,038
Office furniture and fixtures	4,422,741	302,881	46,203	4,679,419
Computer software	536,436	-	-	536,436
Office buildings	3,368,448	83,793	-	3,452,241
Transmission, distribution and treatment facilities	256,419,351	4,611,680	-	261,031,031
Joint maintenance facility	1,501,537	63,350	-	1,564,887
Joint lab building	882,354	-	-	882,354
Donated system facilities	12,873,537	755,199	-	13,628,736
Total depreciable	<u>292,814,881</u>	<u>8,029,392</u>	<u>145,160</u>	<u>300,699,113</u>
Total Capital Assets	<u>297,202,702</u>	<u>11,781,502</u>	<u>2,864,758</u>	<u>306,119,446</u>
Accumulated Depreciation				
Motor vehicles	2,712,437	296,301	50,796	2,957,942
Service maintenance and equipment	6,765,904	711,837	46,756	7,430,985
Office furniture and fixtures	3,780,314	235,143	45,429	3,970,028
Computer software	305,581	39,324	-	344,905
Office buildings	2,521,993	119,042	-	2,641,035
Transmission, distribution and treatment facilities	86,007,166	5,434,900	-	91,442,066
Joint maintenance facility	998,279	53,797	-	1,052,076
Joint lab building	278,991	26,412	-	305,403
Donated system facilities	3,960,569	327,884	-	4,288,453
	<u>107,331,234</u>	<u>7,244,640</u>	<u>142,981</u>	<u>114,432,893</u>
Capital Assets - Net of Accumulated Depreciation	<u>\$ 189,871,468</u>			<u>\$ 191,686,553</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$7,872,092 and \$7,244,640, respectively.

Interest costs incurred during the years ended June 30, 2017 and 2016 were \$7,613,046 and \$7,953,312, respectively. Interest capitalized for the years ended June 30, 2017 and 2016 was \$100,224 and \$0, respectively.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 5 - LONG-TERM DEBT

2017						
	Balance June 30, 2016	Additions	Reductions	Refunded	Balance June 30, 2017	Due Within One Year
Bonds and Other Noncurrent Liabilities Payable						
Revenue bonds	\$ 169,600,000	\$ 59,080,000	\$ (5,225,000)	\$ (61,520,000)	\$ 161,935,000	\$ 6,025,000
Bond premium	5,180,524	-	(288,633)	(1,278,277)	3,613,614	-
	<u>\$ 174,780,524</u>	<u>\$ 59,080,000</u>	<u>\$ (5,513,633)</u>	<u>\$ (62,798,277)</u>	<u>\$ 165,548,614</u>	<u>\$ 6,025,000</u>
2016						
	Balance June 30, 2015	Additions	Reductions	Refunded	Balance June 30, 2016	Due Within One Year
Bonds and Other Noncurrent Liabilities Payable						
Revenue bonds	173,865,000	\$ -	\$ (4,265,000)	\$ -	\$ 169,600,000	\$ 5,225,000
Bond premium	5,500,605	-	(320,081)	-	5,180,524	-
	<u>\$ 179,365,605</u>	<u>\$ -</u>	<u>\$ (4,585,081)</u>	<u>\$ -</u>	<u>\$ 174,780,524</u>	<u>\$ 5,225,000</u>

Revenue Bonds

Bonds payable at June 30, 2017 and 2016 were comprised of the following issues:

	2017	2016
\$81,455,000 Water System Refunding Revenue Bonds of the City of Spartanburg, South Carolina, Series 2007A, dated February 7, 2007. Annual maturities of \$410,000 to \$6,900,000 maturing in 2028 with semi-annual interest of 4.00% to 5.00%. Bonds issued to refund the Water System Refunding Revenue Bonds, Series 2007 and Series 2008.	\$ -	\$ 65,710,000
\$31,200,000 Water System Revenue Bonds of the City of Spartanburg, South Carolina, Series 2007B, dated March 17, 2007. Annual maturities beginning 2029 of \$2,830,000 to \$4,180,000 maturing in 2037 with semi-annual interest of 4.30% to 5.00%. Bonds issued to fund improvements to the System.	4,180,000	4,180,000
\$33,935,000 City of Spartanburg, South Carolina Water System Revenue Bonds, Series 2009, dated December 15, 2009. Annual maturities beginning in 2029 of \$1,765,000 to \$7,435,000 maturing in 2039 with semi-annual interest of 4.625% to 5.00%. Bonds issued to fund improvements to the System.	33,935,000	33,935,000
\$8,000,000 City of Spartanburg, South Carolina Water System Junior Lien Revenue Bonds, Series 2012, dated July 13, 2012. Annual maturities beginning in 2013 of \$450,000 to \$650,000 maturing in 2027 with semi-annual interest of 2.23%. Bonds issued to fund improvements to the System.	5,700,000	6,180,000
\$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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 5 - LONG-TERM DEBT - CONTINUED

Revenue Bonds - Continued

	<u>2017</u>	<u>2016</u>
\$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.	5,700,000	6,255,000
\$59,080,000 City of Spartanburg, South Carolina Water System Refunding Revenue Bonds, Series 2017A, dated June 1, 2017. Annual maturities beginning in 2018 of \$4,920,000 to \$5,850,000 maturing in 2028 with semi-annual interest of 1.75%. Bonds issued to refund the Series 2007A bonds.	59,080,000	-
	161,935,000	169,600,000
Less: current portion	<u>(6,025,000)</u>	<u>(5,225,000)</u>
Total long-term revenue bonds payable	<u>\$ 155,910,000</u>	<u>\$ 164,375,000</u>

Debt service requirements to maturity including interest on all outstanding bonds as of June 30, 2017 are as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 6,025,000	\$ 5,772,643	\$ 11,797,643
2019	6,135,000	5,665,338	11,800,338
2020	6,250,000	5,552,774	11,802,774
2021	6,375,000	5,434,670	11,809,670
2022	6,500,000	5,312,098	11,812,098
2023-2027	34,495,000	24,605,482	59,100,482
2028-2032	31,370,000	19,919,356	51,289,356
2033-2037	38,115,000	11,873,000	49,988,000
2038-2042	24,405,000	3,057,169	27,462,169
2043	2,265,000	104,756	2,369,756
	<u>\$ 161,935,000</u>	<u>\$ 87,297,286</u>	<u>\$ 249,232,286</u>

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 6 - DEFEASANCE OF DEBT AND ADVANCED REFUNDINGS

On June 1, 2017, the System issued \$59,080,000 of Water System Refunding Revenue Bonds, Series 2017A. These proceeds were used to currently refund \$61,520,000 of outstanding Water System Refunding Revenue Bonds, Series 2007A. The net proceeds of \$58,950,490 (including a deposit of remaining proceeds of \$8,618 after payment of \$120,892 of issuance costs) along with System funds of \$2,569,510 were used to currently refund the outstanding debt.

The current refunding resulted in a gross cash flow gain of \$13,733,038 and an economic cash flow gain of \$9,755,514.

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, 2017 and 2016 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 \$454,253 and \$464,029 for the years ended June 30, 2017 and 2016, respectively.

The proceeds from previous bonds issued that defeased certain revenue bonds in prior years were placed in an irrevocable trust to provide for all future debt payments on the old bonds. Accordingly, the trust accounts' assets and the liability for the defeased bonds are not included in the System's financial statements. At June 30, 2017 and 2016, \$0 and \$27,020,000 of bonds outstanding are considered defeased from 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, 2017 and 2016, the System received the following as donated assets or to partially finance plant extensions or additions:

	2017	2016
Donated assets	\$ 816,336	\$ 755,199
Private industry and developers	-	141,951
Federal/State agencies	14,998	92,560
Participation fees	92,195	263,604
	<u>\$ 923,529</u>	<u>\$ 1,253,314</u>

NOTE 8 - PENSION PLAN

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 8 - PENSION PLAN - CONTINUED

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

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. Upon recommendation by the actuary in the annual valuation, the PEBA Board may adopt and present to the State Fiscal Accountability Authority (SFAA) for approval an increase in the employer and employee contribution rates, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9% of earnable compensation. An increase in the contributions rates adopted by the Board may not provide for an increase of more than ½% in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the Board are insufficient to maintain a 30 year amortization schedule of the unfunded liability of the plan, the Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the 30 year amortization period; and this increase is not limited to ½% per year. Employees and employers (both Class II and III) are required to contribute 8.66%/8.06% and 11.41%/10.91%, respectively, of earnable compensation for the years ended June 30, 2017 and 2016, respectively. Employers also contribute an additional .15% of earnable compensation, if participating in the death benefit program.

Contributions to the Plan from the System were \$1,210,662 and \$1,110,276, for the years ended June 30, 2017 and 2016, respectively.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

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, 2017, the System reported a net pension liability of \$22,142,905 for its proportionate share of the collective net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability, net pension liability and sensitivity information are based on the July 1, 2015 actuarial valuation, which utilized membership data as of July 1, 2015. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end June 30, 2016, using generally accepted actuarial procedures. The allocation of the System's proportion of the collective net pension liability and pension expense was determined using the System's actual contributions received by the pension plan relative to the total contributions received by the pension plan for all participating employers as of June 30, 2016. Based upon this information, the System's proportion of the collective net pension liability at June 30, 2017 and 2016 was .1003666% and .1003900%, respectively, a decrease of .00328% since June 30, 2015, the prior measurement date.

For the years ended June 30, 2017 and 2016, the System recognized pension expense of \$2,021,352 and \$1,271,691. At June 30, 2017 and 2016, the System reported deferred outflows of resources and deferred inflows of resources related to the pension as follows:

2017		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,301,456	\$ -
Net difference between projected and actual earnings on pension plan investments	1,014,993	-
System contributions subsequent to the measurement date	1,210,662	-
Total	<u>\$ 3,527,111</u>	<u>\$ -</u>
2016		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,558,571	\$ -
Net difference between projected and actual earnings on pension plan investments	-	1,434,503
System contributions subsequent to the measurement date	1,110,276	-
Total	<u>\$ 2,668,847</u>	<u>\$ 1,434,503</u>

\$1,210,662 reported as deferred outflows of resources related to pensions in 2017, 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, 2018. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 8 - PENSION PLAN - CONTINUED

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

Year Ended June 30	
2018	\$ 563,381
2019	443,400
2020	873,691
2021	435,977
	<u>\$ 2,316,449</u>

Actuarial Assumptions - The June 30, 2016 total pension liability, net pension liability, and sensitivity information determined by the July 1, 2015 valuation, used the following actuarial assumptions and methods:

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

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

Actuarial assumptions and methods used in the July 1, 2015 valuation were based on the results of an actuarial experience study, as required to be completed at least once in each five-year period by S.C. state statute. The experience report issued as of July 1, 2015 was performed on data through June 30, 2015.

The long-term expected rate of return on pension plan investments was based upon the 30 year capital market outlook at the end of the third quarter 2015, as developed by the Retirement Systems' Investment Commission in collaboration with its investment consultant. The actuarial long-term expected rates of return represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected rate of returns are net of investment fees. The expected returns, along with the expected inflation rate, form the basis for the revised target asset allocation adopted beginning January 1, 2016. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and then adding expected inflation, and is summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	43%	3.06%
Real Assets	8%	0.35%
Opportunistic	20%	0.78%
Diversified Credit	17%	0.73%
Conservative Fixed Income	12%	0.18%
Total Expected Real Return	<u>100%</u>	<u>5.10%</u>
Inflation for Actuarial Purposes		2.75%
Total Expected Nominal Return		<u>7.85%</u>

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 8 - PENSION PLAN - CONTINUED

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that the funding policy specified in the South Carolina State Code of Laws will remain unchanged in future years. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
System's proportionate share of the collective net pension liability	\$ 27,622,667	\$ 22,142,905	\$ 17,581,209

Pension Plan Fiduciary Net Position – Detailed information regarding the pension plan's fiduciary net position, administered by PEBA, is available in the Systems' audited financial statements for the fiscal year ended June 30, 2016 (including the unmodified opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2016. The additional information is publicly 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 a single employer defined benefit plan to provide certain post-retirement healthcare benefits. Participants must be eligible to retire under the SCRS with a minimum of 12 years of service to receive benefits. The System explicitly provides a portion of the cost of coverage for retirees and the retirees are required to pay a portion of the premiums. The cost of coverage for pre-65 retirees is also implicitly subsidized by the System through the development of an average premium rate. After age 65, the System will pay for supplemental Medicare coverage for retirees. Spouses are not covered for pre or post-65 retirees. Because the Plan consists solely of the System's firm commitment to provide OPEB through the payment of premiums to a commercial insurance company, no stand-alone financial report is either available or generated.

Funding Policy - As of June 30, 2017 and 2016, there were 55 and 51 employee retirees receiving benefits, respectively. The Plan is financed on a pay-as-you-go basis and through separate contributions to the South Carolina Other Retirements Benefits Employers Trust (SC ORBET), a tax-exempt governmental trust under Internal Revenue Code 115. SC ORBET allows each member to choose a contribution amount into the trust based on the actuarially determined annual required contribution. Each member continues to contract with its current health provider for retiree health care coverage and the SC ORBET pays the benefits chosen by the employer directly to the employer or provider. Each member also shares in the SC ORBET's administrative and investment related expenses.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Annual OPEB Cost and Net OPEB Obligation (Asset) - The System's OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a closed period of 22 years. The following table presents the OPEB cost for the year, the amount actually contributed and changes in the OPEB Plan for the years ended June 30, 2017 and 2016:

	Net OPEB Obligation (Asset)	
	2017	2016
Annual required contribution (ARC)	\$ 1,009,225	\$ 970,473
Interest on net OPEB obligation	231	1,691
Adjustment to ARC	(262)	(1,847)
Annual OPEB cost	1,009,194	970,317
Contributions made	(979,537)	(999,516)
Increase in net OPEB obligation (asset)	29,657	(29,199)
Net OPEB obligation (asset) - beginning of year	4,627	33,826
Net OPEB obligation (asset) - end of year	<u>\$ 34,284</u>	<u>\$ 4,627</u>

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

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

Funded Status and Funding Progress - As of January 1, 2017, the most recent actuarial valuation date, the funded status of the plan was as follows:

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

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 9 - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

Funded Status and Funding Progress - -Ccontinued

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

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

The ARC was determined as part of the January 1, 2017 actuarial valuation using the following methods and assumptions:

Actuarial cost method	Entry Age Normal
Amortization method	level percent of pay, closed
Remaining amortization period	22
Inflation rate	2.25%
Asset valuation method	5-year smoothed market value, 80%-120% corridor
Investment return	4.75% (includes 2.25% inflation rate)
Projected salary increases	2.25%
Healthcare cost trend rate	
Pre-medicare	7.50%-5.00%
Post - medicare	5.50%-5.00%
Ultimate trend rate	5.00%
Year of ultimate trend rate	2023

NOTE 10 - DEFERRED COMPENSATION PLANS

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

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 11 - RISK MANAGEMENT

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

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

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

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

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

The System provides employee health care under a self-funded insurance program. Under this program, specific stop loss coverage for each claim in excess of \$95,000 and aggregate stop loss coverage, including Spartanburg Sanitary Sewer District, for claims in excess of \$3,939,992 is provided by a commercial insurance company. The following represents the change in unfilled, unpaid claims from July 1, 2016 to June 30, 2017 and July 1, 2015 to June 30, 2016:

	2017	2016
Beginning of the year liability	\$ 154,456	\$ 62,254
Claims	1,954,888	2,047,628
Claims payments	<u>(1,985,587)</u>	<u>(1,955,426)</u>
End of the year liability	<u>\$ 123,757</u>	<u>\$ 154,456</u>

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

NOTE 12 - PAYMENTS TO OTHER GOVERNMENTAL UNITS

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

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

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:

	2017	2016
Billing and collection fees	\$ 499,692	\$ 391,788
Administrative fees	960,144	977,220
Labor reimbursements	583,853	590,566
Water quality and maintenance fee	200,207	332,340
Fleet services fee	136,269	159,440
Engineering	448,652	505,487
Operations fee	182,302	188,340
	<u>\$ 3,011,119</u>	<u>\$ 3,145,181</u>

The following amounts were due from (to) the Spartanburg Sanitary Sewer District at June 30, 2017 and 2016 and included in sewer and water collections payable to others and other receivables on the Statements of Net Position:

	2017	2016
User charges collected	\$ (1,871,546)	\$ (2,058,055)
Other payables	(557,752)	(595,543)
Miscellaneous receipts	994,827	982,397
	<u>\$ (1,434,471)</u>	<u>\$ (1,671,201)</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, 2017 and 2016, the System's share is included in capital assets with a cost of \$527,474 and accumulated depreciation of \$423,644 and \$405,291, 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, 2017 and 2016, the System's share is included in capital assets with a cost of \$1,599,549 and \$1,564,887 and accumulated depreciation of \$1,110,774 and \$1,052,076, 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, 2017 and 2016, the System's share is included in capital assets with a cost of \$882,354 and accumulated depreciation of \$331,813 and \$305,403, respectively.

SPARTANBURG WATER SYSTEM
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2017 AND 2016

NOTE 14 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES AND COMMITMENTS

Sick Pay

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

Unemployment Compensation

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

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 \$3,957,171 and \$2,144,752 at June 30, 2017 and 2016, 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 – SUBSEQUENT EVENT

On August 24, 2017, the System issued \$45,930,000 in refunding and improvement bonds to defray the costs of; current and advanced refundings of the 2007B and 2009 callable bonds, respectively; constructing and installing system projects; funding the capitalized interest account, if necessary; and issuance costs.

REQUIRED SUPPLEMENTARY INFORMATION

SPARTANBURG WATER SYSTEM
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
FOR RETIREE HEALTH PLAN
JUNE 30, 2017

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded Actuarial Accrued Liability (UAAL) (B - A)	Ratio of Funded Obligation (A / B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B - A) / C)
January 1, 2017	\$ 4,476,107	\$ 14,855,178	\$ 10,379,071	30.13%	\$ 9,953,096	104.28%
July 1, 2015	3,779,282	12,601,960	8,822,678	29.99%	9,245,649	95.43%
July 1, 2013	2,817,188	11,741,497	8,924,309	23.99%	8,545,134	104.44%

Schedule of Employer Contributions

Fiscal Year	Annual Required Contribution (ARC)	Actual Contributions	Percent Funded
2017	\$ 1,009,225	\$ 979,537	97.06%
2016	970,473	999,516	102.99%
2015	976,116	979,328	100.33%

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
System's Proportion of the Collective Net Pension Liability	0.100366%	0.100390%	0.102614%
System's Proportionate Share of the Collective Net Pension Liability	\$ 22,142,905	\$ 19,039,448	\$ 17,666,729
System's Covered Payroll	\$ 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	220.58%	202.27%	189.64%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily Required Contributions	\$ 1,210,662	\$ 1,110,276	\$ 1,011,873
Contributions in Relation to the Statutorily Required Contributions	<u>1,210,662</u>	<u>1,110,276</u>	<u>1,011,873</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
System's Covered Payroll	\$ 10,472,856	\$ 10,038,663	\$ 9,412,769
Contributions as a Percentage of Covered Payroll	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.

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.

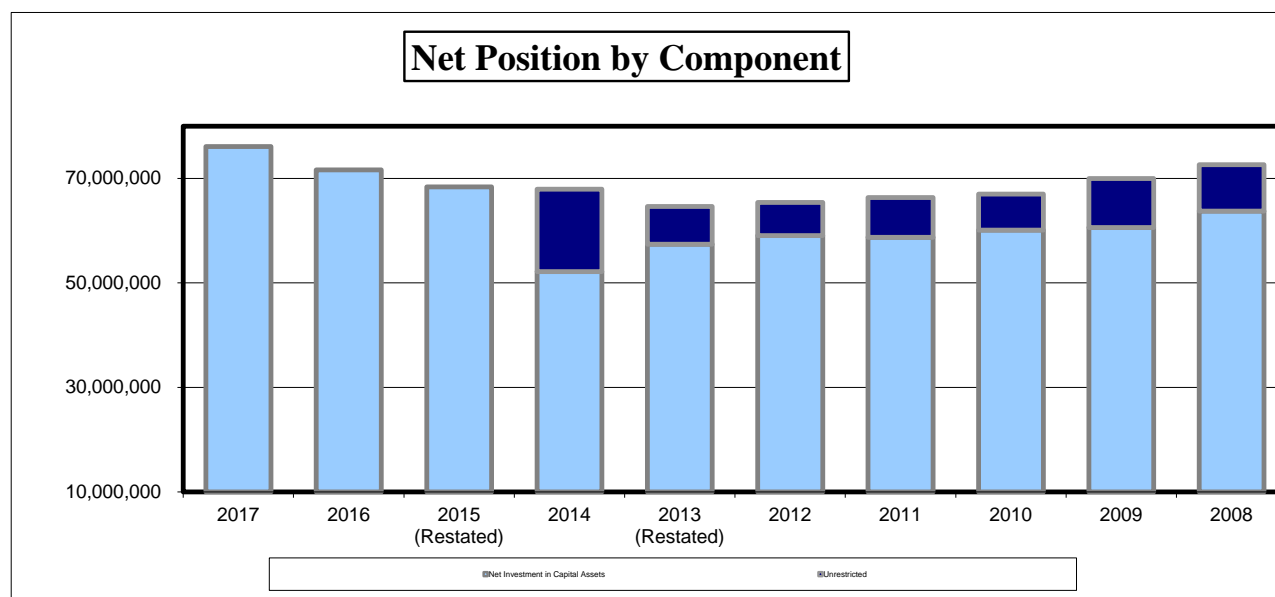
Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Financial Trends

Net Position by Component

FY 2008 to FY 2017

Fiscal Year	Net Investment in Capital Assets		Unrestricted	Total Net Position
2017	\$	76,087,316	\$ (8,740,710)	67,346,606
2016		71,655,431	(11,500,866)	60,154,565
2015 (Restated)		68,397,749	(13,985,914)	54,411,835
2014		52,165,078	15,793,683	67,958,761
2013 (Restated)		57,405,217	7,245,318	64,650,535
2012		59,081,079	6,299,720	65,380,799
2011		58,738,554	7,612,986	66,351,540
2010		60,115,947	6,915,159	67,031,106
2009		60,587,129	9,394,356	69,981,485
2008		63,733,920	8,889,079	72,622,999



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

Changes in Net Position

FY 2008 to FY 2017

	FY 2017	FY 2016	FY 2015 (Restated)	FY 2014	FY 2013 (Restated)	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008
Revenues										
Operating Revenues										
Water Sales	\$ 40,183,098	\$ 37,898,737	\$ 35,785,630	\$ 32,429,507	\$ 30,250,185	\$ 29,881,758	\$ 28,683,192	\$ 25,677,639	\$ 24,901,920	\$ 25,814,825
Tap & Meter Sales	603,515	588,520	471,340	383,845	327,320	347,942	309,252	325,772	402,448	620,527
Other Operating Revenues	1,434,856	1,353,879	1,286,424	1,356,221	1,214,146	1,049,149	997,868	847,918	831,544	823,325
	<u>42,221,469</u>	<u>39,841,136</u>	<u>37,543,394</u>	<u>34,169,573</u>	<u>31,791,651</u>	<u>31,278,849</u>	<u>29,990,312</u>	<u>26,851,329</u>	<u>26,135,912</u>	<u>27,258,677</u>
Nonoperating Revenues										
Intercompany Services	3,011,119	3,145,181	2,977,887	2,961,169	2,556,100	2,360,476	2,518,702	2,298,700	2,280,855	1,836,222
Other Nonoperating Revenues	1,222,673	1,137,436	1,083,115	1,046,052	917,530	925,005	795,806	942,782	1,071,881	2,195,199
	<u>4,233,792</u>	<u>4,282,617</u>	<u>4,061,002</u>	<u>4,007,221</u>	<u>3,473,630</u>	<u>3,285,481</u>	<u>3,314,508</u>	<u>3,241,482</u>	<u>3,352,736</u>	<u>4,031,421</u>
Total Revenues	<u>46,455,261</u>	<u>44,123,753</u>	<u>41,604,396</u>	<u>38,176,794</u>	<u>35,265,281</u>	<u>34,564,330</u>	<u>33,304,820</u>	<u>30,092,811</u>	<u>29,488,648</u>	<u>31,290,098</u>
Expenses										
Operating Expenses, Excluding Depreciation	23,516,057	23,292,434	21,508,056	20,746,447	20,963,353	20,834,329	19,662,618	19,645,463	20,389,176	20,207,039
Depreciation Expense	7,872,092	7,244,640	6,936,967	6,527,267	6,040,620	5,834,829	5,615,089	5,491,953	5,385,628	5,175,814
Nonoperating Expenses	8,798,600	9,097,263	9,666,764	8,041,001	7,641,109	9,087,122	9,240,098	8,392,026	7,438,758	7,705,544
Total Expenses	<u>40,186,749</u>	<u>39,634,337</u>	<u>38,111,787</u>	<u>35,314,715</u>	<u>34,645,082</u>	<u>35,756,280</u>	<u>34,517,805</u>	<u>33,529,442</u>	<u>33,213,562</u>	<u>33,088,397</u>
Excess (Deficiency), Before Capital Contributions	6,268,512	4,489,416	3,492,609	2,862,079	620,199	(1,191,950)	(1,212,985)	(3,436,631)	(3,724,914)	(1,798,299)
Capital Contributions	<u>923,529</u>	<u>1,253,314</u>	<u>378,256</u>	<u>446,147</u>	<u>649,697</u>	<u>221,209</u>	<u>533,419</u>	<u>486,252</u>	<u>1,083,400</u>	<u>1,316,834</u>
Increase (Decrease) in Net Assets	7,192,041	5,742,730	3,870,865	3,308,226	1,269,896	(970,741)	(679,566)	(2,950,379)	(2,641,514)	(481,465)
Net Assets, Beginning of Year	<u>60,154,565</u>	<u>54,411,835</u>	<u>50,540,970</u>	<u>64,650,535</u>	<u>65,380,799</u>	<u>66,351,540</u>	<u>67,031,106</u>	<u>69,981,485</u>	<u>72,622,999</u>	<u>73,104,464</u>
Change in Accounting Principle	-	-	-	-	(2,000,160)	-	-	-	-	-
Net Position at Beginning of Year, Restated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,380,639</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 67,346,606</u>	<u>\$ 60,154,565</u>	<u>\$ 54,411,835</u>	<u>\$ 67,958,761</u>	<u>\$ 64,650,535</u>	<u>\$ 65,380,799</u>	<u>\$ 66,351,540</u>	<u>\$ 67,031,106</u>	<u>\$ 69,981,485</u>	<u>\$ 72,622,999</u>

Revenues By Source

FY 2008 to FY 2017

Fiscal Year	Operating Revenues					
	Water Sales	Private Fire Service Rates	Cut-off Service Charges	Tap & Meter Sales	New Account Fees	Miscellaneous
2017	\$ 40,183,098	\$ 324,644	\$ 311,134	\$ 603,515	\$ 224,503	\$ 574,575
2016	37,898,737	285,324	361,531	588,520	157,350	549,674
2015 (Restated)	35,785,630	281,788	393,266	471,340	187,124	424,246
2014	32,429,507	279,379	397,832	383,845	193,333	485,677
2013 (Restated)	30,250,185	277,574	406,718	327,320	167,293	362,561
2012	29,881,758	273,261	289,627	347,942	119,855	366,406
2011	28,683,192	271,226	281,063	309,252	109,530	336,049
2010	25,677,639	267,027	245,886	325,772	113,960	221,045
2009	24,901,920	262,885	270,808	402,448	121,808	176,043
2008	25,814,825	255,385	307,538	620,527	136,715	123,687

Fiscal Year	Non-Operating Revenues						Total Revenues
	Capacity Fees	Fishing and Boating Permits	Interest Income	Intercompany Services	Administrative Income	Miscellaneous Non-Oper. Revenue	
2017	\$ 273,765	\$ 363,134	\$ 82,325	\$ 3,011,119	\$ 241,176	\$ 262,273	46,455,261
2016	230,890	373,508	6,488	3,145,181	229,517	297,033	44,123,753
2015 (Restated)	189,404	362,734	14,350	2,977,887	245,655	270,972	41,604,396
2014	143,421	322,194	2,946	2,961,169	230,444	347,047	38,176,794
2013 (Restated)	123,013	320,324	30,103	2,556,100	233,053	211,037	35,265,281
2012	137,191	334,992	72,478	2,360,476	202,409	177,935	34,564,330
2011	87,983	333,741	127,275	2,518,702	180,273	66,534	33,304,820
2010	121,640	357,028	183,567	2,298,700	173,522	107,025	30,092,811
2009	150,015	322,541	373,490	2,280,855	173,684	52,151	29,488,648
2008	304,700	341,348	1,316,797	1,836,222	203,409	28,945	31,290,098

Operating Expenses**FY 2008 to FY 2017**

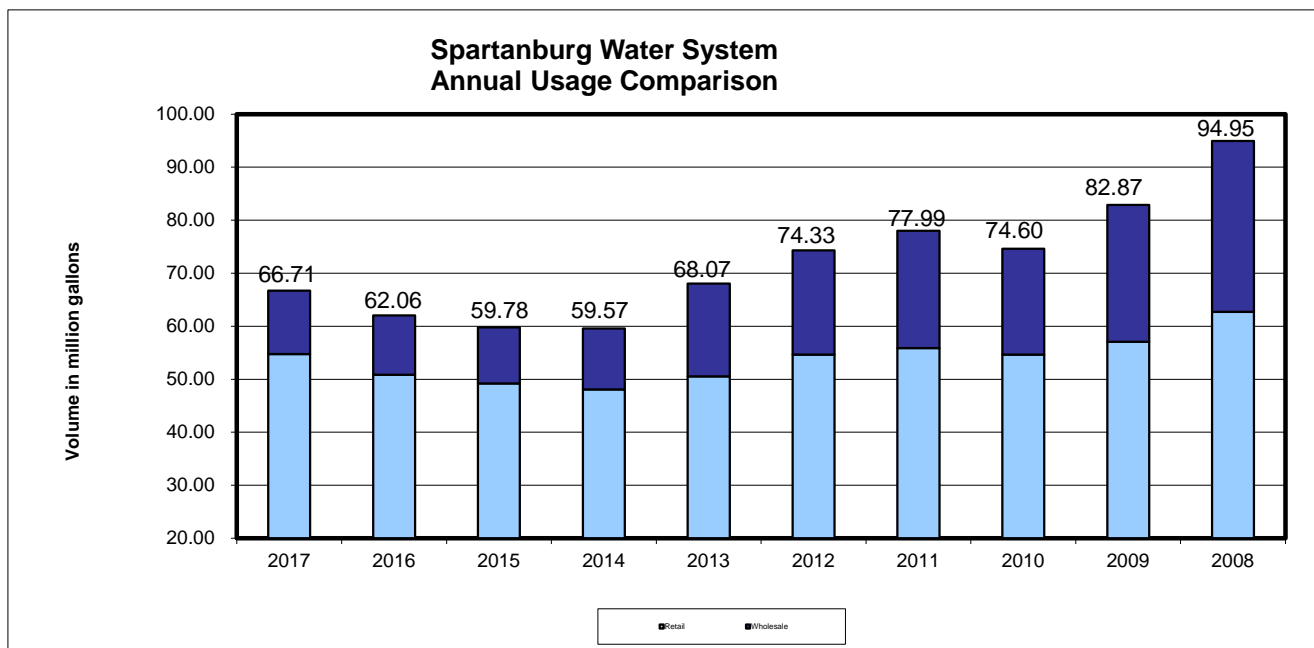
Fiscal Year	Personnel Cost	Supplies and Maintenance	Outside Services	Educational and Training	Company Expenses	Depreciation Expense	Total Expenses
2017	\$ 15,265,270	\$ 3,787,586	\$ 3,385,823	\$ 469,201	\$ 608,177	\$ 7,872,092	31,388,149
2016	14,013,276	4,828,118	3,539,437	413,442	498,161	7,244,640	30,537,074
2015 (Restated)	13,868,014	3,853,896	3,026,101	360,093	399,952	6,936,967	28,445,023
2014	13,192,296	3,804,410	3,030,565	338,007	381,169	6,527,267	27,273,714
2013 (Restated)	12,989,385	3,844,526	3,502,959	369,864	256,619	6,040,620	27,003,973
2012	12,600,577	3,992,350	3,576,263	334,541	330,598	5,834,829	26,669,158
2011	12,064,622	3,680,314	3,120,689	296,297	500,696	5,615,089	25,277,707
2010	12,308,285	3,687,009	2,957,178	243,600	449,391	5,491,953	25,137,416
2009	12,475,731	3,987,037	3,239,831	235,911	450,666	5,385,628	25,774,804
2008	11,423,906	4,605,169	3,306,285	365,940	505,739	5,175,814	25,382,853

Revenue Capacity

Annual Billed Usage

FY 2008 to FY 2017

Fiscal Year	Volume in Million Gallons		
	Wholesale	Retail	Total
2017	11.98	54.73	66.71
2016	11.20	50.86	62.06
2015	10.58	49.20	59.78
2014	11.47	48.10	59.57
2013	17.54	50.53	68.07
2012	19.70	54.63	74.33
2011	22.13	55.86	77.99
2010	19.93	54.67	74.60
2009	25.81	57.06	82.87
2008	32.24	62.71	94.95



Historical Volume Rate Information FY 2008 to FY 2017

Fiscal Year	Retail		Wholesale
	Inside City	Outside City	
	Block 1	Block 1	
2017	\$ 0.3720	\$ 0.6510	\$ 0.1591
2016	0.3650	0.6390	0.1511
2015	0.3650	0.6390	0.1511
2014	0.3570	0.6248	0.1511
2013	0.3182	0.5570	0.1511
2012	0.2848	0.4984	0.1484
2011	0.2607	0.4561	0.1457
2010	0.2380	0.4164	0.1430
2009	0.2126	0.3721	0.1430
2008	0.1898	0.3322	0.1430

Number of System Customers**FY 2008 to FY 2017**

Fiscal Year	Retail			Wholesale	Number of Customers
	Residential	Commercial	Industrial		
2017	54,997	6,366	54	5	61,422
2016	54,357	6,299	55	5	60,716
2015	53,725	6,222	54	5	60,006
2014	53,277	6,168	54	5	59,504
2013	52,908	6,128	54	6	59,096
2012	52,586	6,033	82	6	58,707
2011	52,574	5,657	86	6	58,323
2010	52,535	5,595	90	6	58,226
2009	52,557	5,557	90	6	58,210
2008	51,481	5,438	92	7	57,018

Ten Largest Retail Customers

FY 2008 & FY 2017

Customer	2008				2017			
	Consumption (100g)	Total Annual Revenue	Percent of 2008 Water Sales Revenue	2008 Ranking	Consumption (100g)	Total Annual Revenue	Percent of 2017 Water Sales Revenue	2017 Ranking
Auriga Polymers, Inc. (KoSa)	507,373	\$ 924,815	3.58%	1	3,036,855	\$ 1,491,318	3.71%	1
Spartanburg Regional Medical Center	125,993	182,855	0.71%	3	1,093,095	435,879	1.08%	2
Milliken & Company	223,302	525,310	2.03%	2	1,080,400	721,081	1.79%	3
Wofford College	109,568	155,558	0.60%	4	870,900	362,470	0.90%	4
Pet Inc. Dairy Division	90,692	225,358	0.87%	6	776,395	516,191	1.28%	5
Michelin North America	85,122	211,527	0.82%	7	711,730	468,876	1.17%	6
BASF Corporation	-	-	-	-	552,820	365,668	0.91%	7
R R Donnelley & Sons	72,347	179,772	0.70%	9	534,364	356,761	0.89%	8
Spartanburg Sanitary Sewer District	-	-	-	-	450,136	305,665	0.76%	9
Converse College	-	-	-	-	435,988	174,031	0.43%	10
Spartanburg Housing Authority	92,600	137,207	0.53%	5	-	-	-	-
Kohler Company	72,584	180,361	0.70%	8	-	-	-	-
Mary Black Memorial Hospital	65,585	159,184	0.62%	10	-	-	-	-
TOTALS	1,445,166	\$ 2,881,947	11.16%		9,542,683	\$ 5,197,940	12.92%	

Wholesale Water Customers in Charge and Volume Order

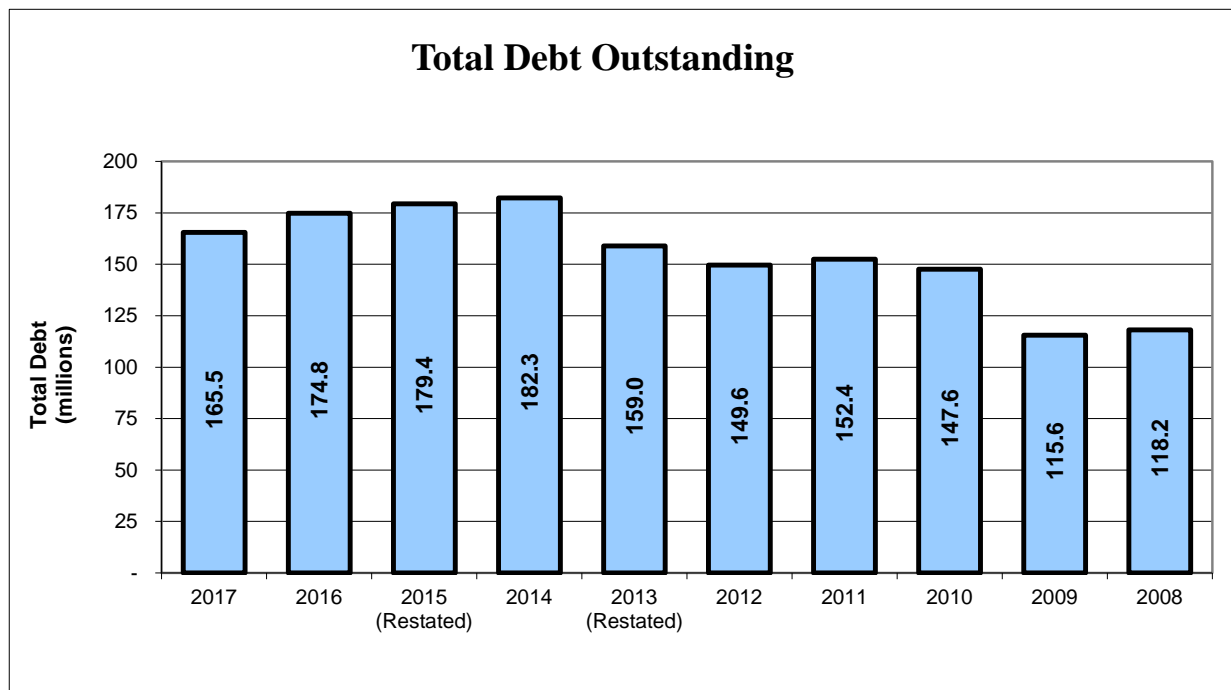
FY 2017

CUSTOMER	Billable Consumption (100g)	Percent to Total Consumption	Billable Charges	Base Charges	Total Charges	Percent to Total Water Sales Revenue
Liberty-Chesnee-Fingerville Water District	5,435,050	8.15%	\$ 862,556	\$ 6,271	\$ 868,827	2.18%
Goucher Water Company	2,253,451	3.38%	357,736	1,823	359,559	0.90%
Metropolitan Sub-District "B"	2,215,050	3.32%	351,554	3,094	354,648	0.89%
Meansville-Riley Water Company	1,528,877	2.29%	241,649	1,581	243,230	0.61%
Town of Jonesville	550,695	0.83%	87,396	1,547	88,943	0.22%
	11,983,123	17.97%	\$ 1,900,891	\$ 14,316	\$ 1,915,207	4.80%

Debt Capacity

Debt Outstanding**FY 2008 to FY 2017**

Fiscal Year	Revenue Bonds	Note Payable	Total Outstanding Debt	Per Capita*	As Share of Personal Income
2017	\$ 165,548,614	\$ -	\$ 165,548,614	557	1.66%
2016	174,780,524	-	174,780,524	595	1.70%
2015 (Restated)	179,365,605	-	179,365,605	611	1.75%
2014	182,275,761	-	182,275,761	626	1.79%
2013 (Restated)	158,965,621	12,500	158,978,121	551	1.64%
2012	149,528,318	62,500	149,590,818	523	1.64%
2011	152,334,685	112,500	152,447,185	536	1.70%
2010	147,478,536	162,500	147,641,036	515	1.75%
2009	115,353,621	212,500	115,566,121	412	1.35%
2008	117,920,841	262,500	118,183,341	429	1.43%



* Per Capita number is based on the Spartanburg County population. Spartanburg Water System serves 61,417 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 2008 to FY 2017

	2017	2016	2015 (Restated)	2014	2013(Restated)	2012	2011	2010	2009	2008
Net Income										
Operating revenues	\$ 42,221,469	\$ 39,841,136	\$ 37,543,394	\$ 34,169,573	\$ 31,791,651	\$ 31,278,849	\$ 29,990,312	\$ 26,851,329	\$ 26,135,912	\$ 27,258,677
Operating expenses before depreciation and amortization	(23,516,057)	(23,292,434)	(21,508,056)	(20,746,447)	(20,963,353)	(20,834,329)	(19,662,618)	(19,645,463)	(20,389,176)	(20,207,039)
Operating income before depreciation and amortization	18,705,412	16,548,702	16,035,338	13,423,126	10,828,298	10,444,520	10,327,694	7,205,866	5,746,736	7,051,638
Depreciation	(7,872,092)	(7,244,640)	(6,936,967)	(6,527,267)	(6,040,620)	(5,834,829)	(5,615,089)	(5,491,953)	(5,385,628)	(5,175,814)
Amortization of bond cost	-	-	-	(176,290)	-	(110,011)	(148,785)	(154,984)	(81,665)	(81,665)
Operating Income	10,833,320	9,304,062	9,098,371	6,719,569	4,787,678	4,499,680	4,563,820	1,558,929	279,443	1,794,159
Nonoperating Revenues	4,233,792	4,282,617	4,061,002	4,007,220	3,473,630	3,285,481	3,314,508	3,241,482	3,352,736	4,031,421
Nonoperating Expenses	(7,798,600)	(8,097,263)	(8,566,764)	(6,664,711)	(6,241,109)	(7,577,111)	(7,691,313)	(6,837,042)	(5,957,093)	(6,099,197)
Payments to Other Governments	(1,000,000)	(1,000,000)	(1,100,000)	(1,200,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)	(1,524,682)
Capital Contributions	923,529	1,253,314	378,256	446,147	649,697	221,209	533,419	486,252	1,083,400	1,316,834
Net Income (Loss) Per Financial Statements	\$ 7,192,041	\$ 5,742,730	\$ 3,870,865	\$ 3,308,225	\$ 1,269,896	\$ (970,741)	\$ (679,566)	\$ (2,950,379)	\$ (2,641,514)	\$ (481,465)
Income Available for Debt Service										
Net Income (Loss) Per Financial Statements	\$ 7,192,041	\$ 5,742,730	\$ 3,870,865	\$ 3,308,225	\$ 1,269,896	\$ (970,741)	\$ (679,566)	\$ (2,950,379)	\$ (2,641,514)	\$ (481,465)
Less: (Gain)/loss on sale of fixed assets	(137,449)	(80,853)	(76,468)	(53,650)	(65,388)	(25,597)	(5,728)	(61,702)	954	40,474
Less: Restricted investment income	(78,853)	(2,639)	(672)	(1,894)	(7,552)	(32,845)	(79,324)	(133,225)	(294,845)	(955,002)
Less: Capital contributions	(923,529)	(1,253,314)	(378,256)	(446,147)	(649,697)	(221,209)	(533,419)	(486,252)	(1,083,400)	(1,316,834)
Less: Transfers into rate stabilization fund	1,000,000	200,000	400,000	-	-	600,000	500,000	-	-	975,000
Plus: Transfers out of rate stabilization fund	-	-	-	290,000	700,000	-	-	220,000	225,000	-
Plus: Excess transfers in over out	(1,000,000)	(200,000)	(400,000)	-	-	(600,000)	(500,000)	-	-	(975,000)
Plus: Depreciation	7,872,092	7,244,640	6,936,967	6,527,267	6,040,620	5,834,829	5,615,089	5,491,953	5,385,628	5,175,814
Plus: Tap and meter purchase	-	-	-	-	-	-	-	-	445,304	705,219
Plus: Interest expense	7,677,708	8,097,263	8,178,983	6,638,374	6,182,991	7,557,925	7,670,534	6,819,730	5,939,174	6,068,716
Plus: Payments to other governments	1,000,000	1,000,000	1,100,000	1,200,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,524,682
Plus: Pension Adjustment	810,690	161,415	225,898	-	-	-	-	-	-	-
Plus: Amortization of Bond Costs	-	-	-	-	-	110,011	148,785	154,984	81,665	81,665
Plus: Bond Issuance Costs	120,892	-	387,781	-	-	-	-	-	-	-
Net Earnings per Revenue Bond Covenant	\$ 23,533,592	\$ 20,909,242	\$ 20,245,098	\$ 17,462,175	\$ 14,870,870	\$ 13,652,373	\$ 13,536,371	\$ 10,455,109	\$ 9,457,966	\$ 10,843,269
Revenue Bond Debt Service	\$ 12,997,256	\$ 12,151,334	\$ 12,896,811	\$ 10,999,790	\$ 11,578,355	\$ 9,533,853	\$ 8,723,418	\$ 7,915,154	\$ 6,990,341	\$ 6,338,601
Revenue Bond Debt Service Coverage	1.81	1.72	1.57	1.59	1.28	1.43	1.55	1.32	1.35	1.71

Demographic and Economic Information

Spartanburg County Demographic Statistics**CY 2007 to CY 2016**

Calendar Year	(1) July 1 Population	Personal Income (1)		(3) Median Age	(4) School Enrollment	(5) Unemployment Rate
		Total	Per Capita			
2016	301,463	\$ 11,501,469,000	\$ 38,686 *	38.5	47,825	3.4%
2015	297,302	10,738,530,000	33,600 *	38.4	47,298	5.8%
2014	293,542	10,252,621,000	34,946 *	38.5	47,306	6.4%
2013	290,969	10,033,000,000	35,040	38.5	46,846	7.3%
2012	288,745	9,819,000,000	33,518	35.5	44,174	8.8%
2011	286,236	9,241,000,000	31,873	38.1	42,552	9.5%
2010	284,307	8,959,000,000	31,512	37.7	44,398	11.7%
2009	286,822	8,460,000,000	29,494	37.5	43,036	12.4%
2008	280,738	8,618,609,000	30,506	37.3	43,431	6.9%
2007	275,285	8,304,934,000	30,012	37.0	43,754	5.6%

Data Sources:

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

Spartanburg County, South Carolina Major Employers and Changes

FY 2017 & FY 2007

Company Name	Business/Product	Employees and % of Workforce			
		2017	%	2007	%
BMW Manufacturing Corporation	Automotive manufacturer	9,000	6.5%	4,415	3.0%
Spartanburg County Schools	Public school system	7,634	5.5%	5,535	3.8%
Spartanburg Regional Medical Center	Hospital	6,964	5.0%	4,607	3.2%
State of South Carolina	State government	2,359	1.7%	2,354	1.6%
Milliken & Company	Research & development on yarns, chemicals	998	0.7%	N/A*	0.0%
Spartanburg County	County government, courts, law enforcement	1,540	1.1%	1,379	0.9%
Mary Black Memorial Hospital	Private hospital	828	0.6%	1,006	0.7%
Michelin Tire Company	Radial truck tire manufacturer	1,214	0.9%	952	0.7%
Sealed Air (Cryovac)	Mfg. of plastic packaging material	338	0.2%	N/A*	0.0%
Bi-Lo	Retail grocery	630	0.5%	N/A*	0.0%
Inman Mills	Man made woven fabric	700	0.5%	N/A*	0.0%
Spartanburg Steel	Fabricate structural metal products	610	0.4%	601	0.4%
R. R. Donnelley	Catalog printing & binding	434	0.3%	580	0.4%
Kohler Company	Manufacturer of china plumbing fixtures	610	0.4%	909	0.6%
Tietex Corporation	Mfg. of non-woven material	279	0.2%	625	0.4%
Contec Inc.	Wiper manufacturer	410	0.3%	N/A*	0.0%
BMG Entertainment	Distributor of records, CD's, & tapes	N/A*	0.0%	600	0.4%

Data Source:

Spartanburg County Economic Development Corporation & individual employers

(N/A*) Data unavailable

Operating Information

Schedule of Capacity Fees and User Charges**FY 2017****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 2017 (per 100g)</u>		<u>FY 2016 (per 100g)</u>		<u>FY 2015 (per 100g)</u>	
<u>Inside City</u>	<u>Outside City</u>	<u>Inside City</u>	<u>Outside City</u>	<u>Inside City</u>	<u>Outside City</u>
\$ 0.3720	\$ 0.6510	\$ 0.3650	\$ 0.6390	\$ 0.3650	\$ 0.6390

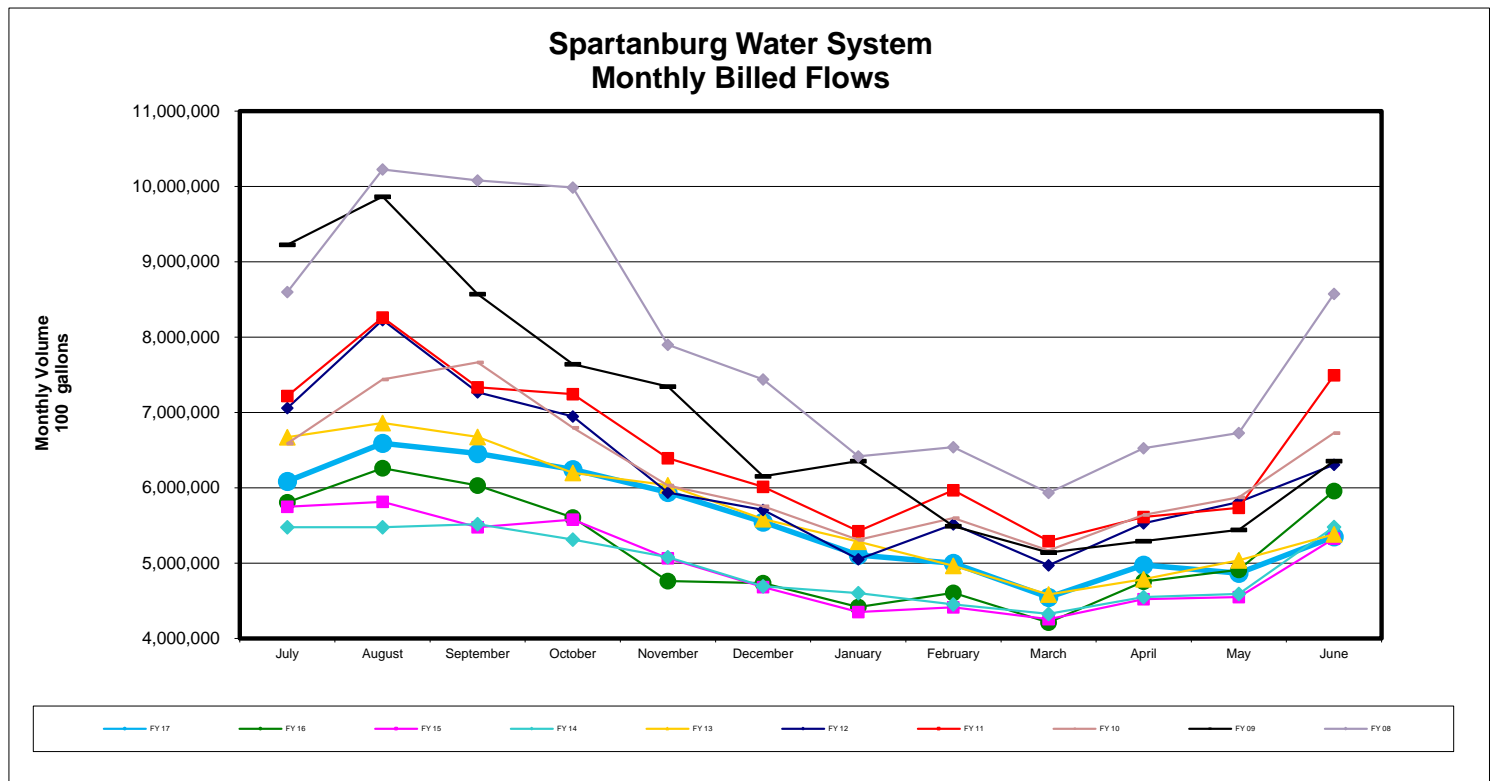
C. Base Charge Schedule

<u>Meter Size</u>	<u>Meter Master Code</u>	<u>Monthly</u>		<u>Bi-Monthly</u>	
		<u>Inside</u>	<u>Outside</u>	<u>Inside</u>	<u>Outside</u>
5/8	1	\$ 7.50	\$ 11.25	\$ 15.00	\$ 22.50
1	2	\$ 17.11	\$ 25.67	\$ 34.22	\$ 51.33
1 1/2	3	\$ 33.13	\$ 49.71	\$ 66.27	\$ 99.41
2	4	\$ 52.36	\$ 78.55	\$ 104.73	\$ 157.10
3	5	\$ 97.23	\$ 145.86	\$ 194.47	\$ 291.71
4	6	\$ 161.33	\$ 242.01	\$ 322.67	\$ 484.01
6	7	\$ 321.58	\$ 482.38	\$ 643.17	\$ 964.76
8	8	\$ 526.70	\$ 790.06	\$ 1,053.41	\$ 1,580.12
10	9	\$ 789.51	\$ 1,579.03	\$ 1,184.28	\$ 2,368.55

Monthly Billed Flows

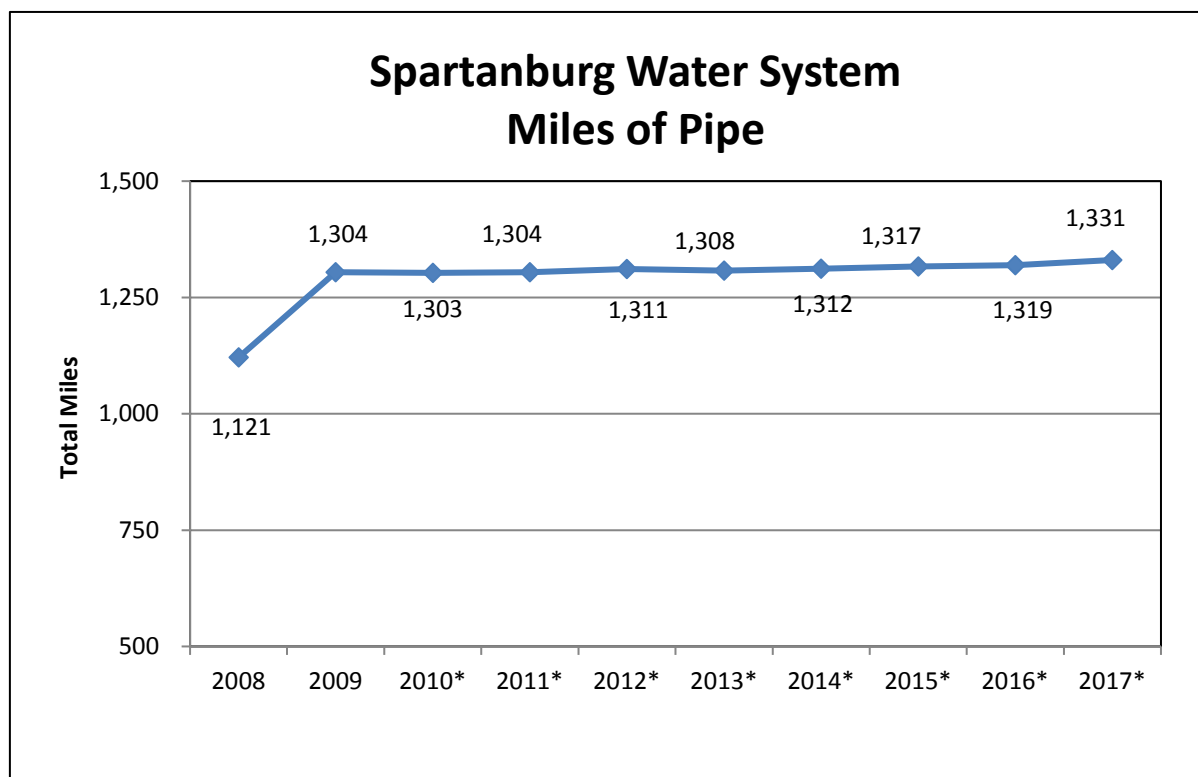
FY 2008 to FY 2017

	FY 17	FY 16	FY 15	FY 14	FY 13	FY 12	FY 11	FY 10	FY 09	FY 08
July	6,088,214	5,807,015	5,749,777	5,475,433	6,670,367	7,058,343	7,220,466	6,587,821	9,224,770	8,598,752
August	6,590,613	6,260,429	5,813,737	5,477,610	6,861,036	8,227,872	8,260,630	7,439,696	9,865,489	10,225,485
September	6,456,245	6,032,274	5,476,039	5,517,310	6,675,780	7,269,053	7,332,856	7,665,060	8,569,909	10,081,028
October	6,244,105	5,605,127	5,579,288	5,313,389	6,198,231	6,948,143	7,243,836	6,796,987	7,641,625	9,985,948
November	5,941,578	4,763,743	5,066,774	5,080,431	6,035,792	5,935,765	6,392,802	6,030,307	7,344,882	7,897,506
December	5,546,630	4,734,020	4,682,253	4,693,878	5,585,786	5,707,798	6,013,301	5,754,721	6,152,674	7,437,775
January	5,108,333	4,418,270	4,349,883	4,601,511	5,286,420	5,053,001	5,425,080	5,309,632	6,353,834	6,419,267
February	4,998,154	4,605,049	4,412,636	4,453,878	4,964,144	5,514,223	5,968,194	5,598,288	5,490,377	6,540,393
March	4,547,215	4,212,417	4,255,821	4,326,777	4,584,177	4,971,912	5,293,037	5,168,228	5,140,774	5,931,935
April	4,975,455	4,754,348	4,520,737	4,551,407	4,788,188	5,527,412	5,612,120	5,641,800	5,291,715	6,524,030
May	4,865,612	4,911,028	4,549,681	4,592,912	5,036,109	5,812,840	5,734,609	5,875,595	5,440,936	6,727,831
June	5,351,709	5,958,364	5,325,321	5,481,856	5,383,932	6,306,474	7,493,189	6,728,006	6,354,560	8,576,165
	66,713,863	62,062,084	59,781,947	59,566,392	68,069,962	74,332,836	77,990,120	74,596,141	82,871,545	94,946,115



Miles of Pipe**FY 2008 to FY 2017**

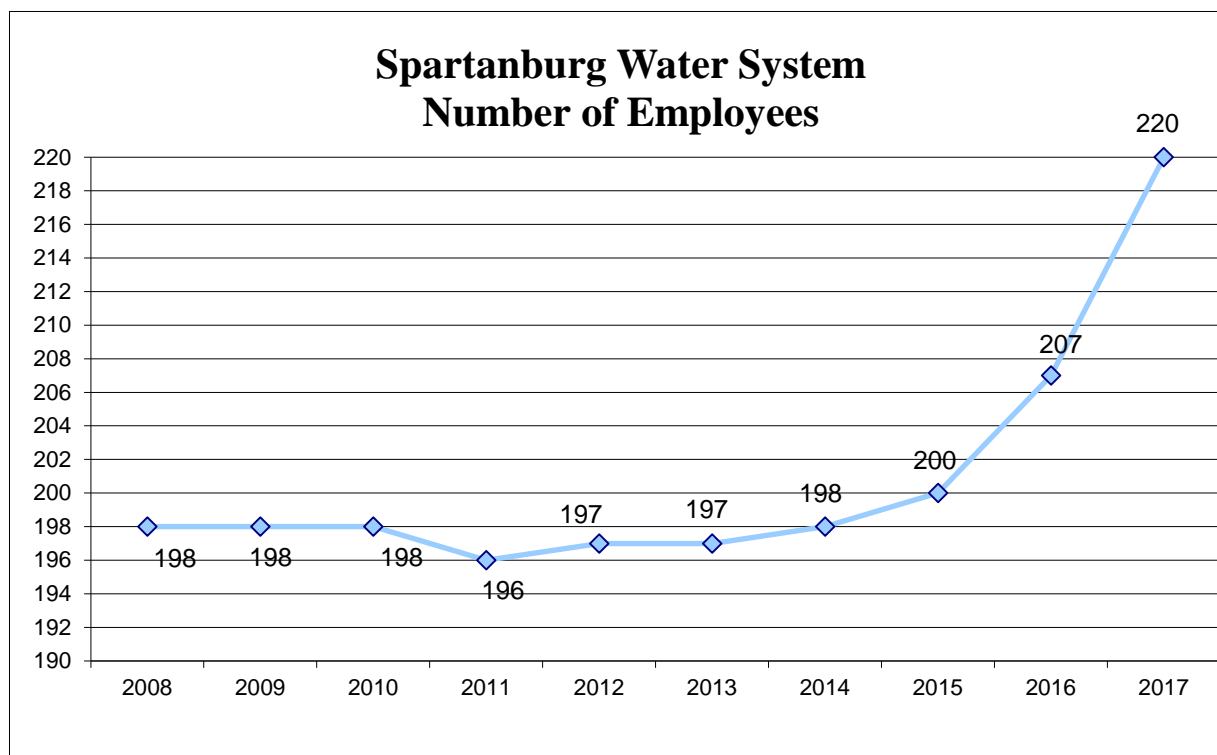
Fiscal Year	Miles of Pipe
2017*	1,331
2016*	1,319
2015*	1,317
2014*	1,312
2013*	1,308
2012*	1,311
2011*	1,304
2010*	1,303
2009	1,304
2008	1,121



* 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 2008 to FY 2017**

Fiscal Year	Number of Employees
2017	220
2016	207
2015	200
2014	198
2013	197
2012	197
2011	196
2010	198
2009	198
2008	198



* Numbers based on Operating Budget Employee Count.

Annual Rainfall**FY 2008 to FY 2017**