

METROPOLITAN SEWER SUBDISTRICT
OF GREENVILLE COUNTY

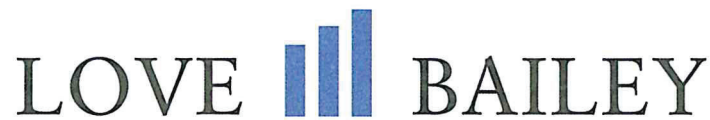
REPORT ON FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

**METROPOLITAN SEWER SUBDISTRICT
OF GREENVILLE COUNTY
YEAR ENDED JUNE 30, 2018**

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Commissioners
Metropolitan Sewer Subdistrict of Greenville County
Greenville, South Carolina

We have audited the accompanying financial statements of the governmental activities and each major fund of the Metropolitan Sewer Subdistrict of Greenville County ("Metro") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Metro'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Metro, as of June 30, 2018, and, the respective changes in financial position and the respective budgetary comparison for the General Fund for the year 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 and budgetary comparison information on pages 4 through 11 and 18, respectively, be presented to supplement the basic financial statements. Additionally, the sewer line condition assessment, the schedule of funding progress – other post-employment benefits, the schedule of proportionate share of the net pension liability, and the schedule of contributions on pages 45 through 49 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 opinions on the financial statements that collectively comprise Metro's basic financial statements. The schedule of revenues, expenditures, and changes in fund balances – budget and actual – capital projects fund is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Change in Accounting Principle

As discussed in Note 13 to the financial statements, in 2018 Metro adopted new accounting guidance, *GASBS No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Governmental Auditing Standards*, we have also issued a report dated February 11, 2019 on our consideration of Metro's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Metro's internal control over financial reporting and compliance.

Love Bailey & Associates, LLC

Love, Bailey & Associates, LLC

Laurens, South Carolina

February 11, 2019

Metropolitan Sewer Subdistrict of Greenville County

Management's Discussion and Analysis

June 30, 2018

As management of the Metropolitan Sewer Subdistrict of Greenville County ("Metro"), we offer readers of Metro's financial statements this narrative overview and analysis of the financial activities of Metro for the fiscal year ended June 30, 2018.

Financial Highlights

- Metro increased its net position by \$4,624,000 or 2.3%.
- Total revenue decreased by \$288,000 or 2.0% and total expenses increased by approximately \$1,823,000 or 24.1%.
- Capital contributions decreased slightly by \$36,000 or less than 1%.

Overview of the Financial Statements

Metro's basic financial statements are comprised of three parts: 1) management's discussion and analysis, 2) the financial statements, and 3) notes to the financial statements that explain in more detail some of the information in the financial statements.

Required Financial Statements

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

The statement of net position presents information on all of Metro's assets and liabilities and provides information about the nature and the amounts of investments in resources (assets) and the obligations to Metro's creditors (liabilities). It provides one way to measure the financial health of Metro by providing the basis for evaluating the capital structure of Metro and assessing the liquidity and financial flexibility of Metro.

The statement of activities presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement can be used to determine whether Metro has successfully recovered its annual costs through tax collections, other charges, and credit worthiness.

The remaining basic financial statements are fund financial statements that focus on individual parts of Metro, reporting Metro's operations in more detail than the government-wide statements.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of Metro are governmental funds.

Metropolitan Sewer Subdistrict of Greenville County

Management's Discussion and Analysis

June 30, 2018

Required Financial Statements, Continued

Governmental funds are used to account for essentially the same functions reported as governmental activities in government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

Metro maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and the capital projects fund, of which both are considered to be major funds.

The notes to the financial statements provide required disclosures and other information that is essential to a full understanding of material data provided in the statements. The notes to the financial statements present detail information about Metro's accounting policies, account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

Financial Analysis

Net position:

Net position, the difference between assets, deferred outflows, liabilities and deferred inflows, may serve over time as a useful indicator of an entity's financial position. As shown in Table 1, Metro's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$205,392,000 at the close of the most recent fiscal year. This amount represents an increase in net position of \$4,624,000 from \$200,768,000 in FY 2017. The largest portion of Metro's net position (91%) reflects its investment in capital assets (e.g. infrastructure, buildings, machinery, and equipment). Metro has no outstanding debt. The remaining portion (9%) represents current and other assets (e.g. cash, cash equivalents, investments, and receivables). These current and other assets will be used for the liabilities shown below, and the unrestricted net position will be used to finance future projects.

Metropolitan Sewer Subdistrict of Greenville County

Management's Discussion and Analysis

June 30, 2018

Financial Analysis, Continued

Net position, continued:

Table 1
Condensed Statement of Net Position
(000's)

	<u>FY 2018</u>	<u>FY 2017</u>	<u>Dollar change</u>	<u>Percent change</u>
Current and other assets	\$ 24,714	\$ 24,922	\$ (208)	(0.8)%
Capital assets	<u>186,195</u>	<u>181,127</u>	<u>5,068</u>	<u>2.8%</u>
Total assets	<u>210,909</u>	<u>206,049</u>	<u>4,860</u>	<u>2.4%</u>
Deferred outflows of resources	<u>1,089</u>	<u>854</u>	<u>235</u>	<u>27.5%</u>
Long-term liabilities	5,492	4,940	552	11.2%
Other liabilities	<u>786</u>	<u>1,100</u>	<u>(314)</u>	<u>(28.5)%</u>
Total liabilities	<u>6,278</u>	<u>6,040</u>	<u>238</u>	<u>3.9%</u>
Deferred inflows of resources	<u>328</u>	<u>95</u>	<u>233</u>	<u>245.3%</u>
Net investment in capital assets	186,195	181,127	5,068	2.8%
Restricted	30	30	-	-
Unrestricted	<u>19,167</u>	<u>19,611</u>	<u>(444)</u>	<u>(2.3)%</u>
Total net position	<u>\$ 205,392</u>	<u>\$ 200,768</u>	<u>\$ 4,624</u>	<u>\$ 2.3%</u>

Changes in net position:

While the statement of net position shows a snapshot of Metro's financial position at the end of the fiscal year, the statement of activities provides answers as to the nature and source of the changes in net position from the prior year. As can be seen in Table 2, total revenues decreased by \$288,000, or 2.0%, to \$14,336,000 in FY 2018 from \$14,624,000 in FY 2017 and expenses increased by \$1,823,000, or 24.1%, to \$9,393,000 in FY 2018 from \$7,570,000 in FY 2017.

The decrease in revenue is attributed to the completion of the Piedmont Project that was grant funded. No grant funds were received in FY 2018. The decrease was offset by an increase in property tax and sewer fee revenue resulting from steady commercial and residential growth in Greenville and Anderson Counties.

Capital contributions, which represent the non-cash contribution of sewer systems constructed by third-party developers and then deeded to Metro at the completion of the development slightly decreased \$36,000 or less than 1% in FY 2018 over FY 2017.

Operating expenses increased in FY 2018 primarily due to the completion of several rehabilitation projects carried over from FY 2017 and more anticipated maintenance contract projects completed throughout the year.

Metropolitan Sewer Subdistrict of Greenville County

Management's Discussion and Analysis

June 30, 2018

Financial Analysis, Continued

Changes in net position, continued:

Table 2
Statements of Activities
(000's)

	<u>FY 2018</u>	<u>FY 2017</u>	<u>Dollar change</u>	<u>Percent change</u>
Program revenues				
Sewer fees	\$ 3,174	\$ 3,059	\$ 115	3.8%
Tap fees	718	695	23	3.3%
Grants	-	668	(668)	(100)%
Capital contributions	5,007	5,043	(36)	(0.7)%
General revenues				
Property taxes	5,341	5,100	241	4.7%
Interest income	71	34	37	108.8%
Other	25	25	-	-
Total revenue	<u>14,336</u>	<u>14,624</u>	<u>(288)</u>	<u>(2.0)%</u>
Depreciation expense	507	496	11	2.2%
Operating expenses	<u>8,886</u>	<u>7,074</u>	<u>1,812</u>	<u>25.6%</u>
Total expenses	<u>9,393</u>	<u>7,570</u>	<u>1,823</u>	<u>24.1%</u>
 Increase (decrease) in net position	<u>4,943</u>	<u>7,054</u>	<u>(2,111)</u>	<u>(29.9)%</u>
 Net position, beginning (restated) ¹	<u>200,449</u>	<u>193,714</u>	<u>6,735</u>	<u>3.5%</u>
Net position, ending	<u>\$ 205,392</u>	<u>\$ 200,768</u>	<u>\$ 4,624</u>	<u>2.3%</u>

Budgetary highlights:

Metro's department managers submit in writing their projected operational and capital needs for the ensuing fiscal year and a ten-year plan. The General Manager and the Finance Director draft a preliminary budget using these documents and present to the Commission for review and comment. Upon the preliminary approval by the Commission, a Notice of Public Hearing is published in the local newspapers. During the public hearing, the Commission receives comments from the community. The final budget is then submitted to the Commission for approval. The approved budget will remain in effect for the entire fiscal year and cannot be revised without a public hearing and Commission approval. The approved budget was not revised at any time in FY 2018. It is the policy of the Commission to compare actual monthly expenses to budgeted monthly expenses and to approve monthly disbursements.

¹ See Note 13

Metropolitan Sewer Subdistrict of Greenville County

Management's Discussion and Analysis

June 30, 2018

Budgetary Highlights, continued:

Table 3
Fiscal Year 2018 General Fund Budget
vs. Actual

	<u>FY 2018 budgeted</u>	<u>FY 2018 actual</u>	<u>Variance</u>
Revenues			
Property taxes	\$ 4,935,040	\$ 5,355,362	\$ 420,322
Sewer fees	3,106,500	3,174,777	68,277
Interest income	35,000	71,261	36,261
Tap fees and other	<u>601,000</u>	<u>717,955</u>	<u>116,955</u>
Total revenues	<u>8,677,540</u>	<u>9,319,355</u>	<u>641,815</u>
Expenditures			
Salaries, wages, and benefits	3,941,000	3,351,190	589,810
Operations and maintenance	5,530,100	5,142,195	387,905
Professional fees and outside services	<u>200,000</u>	<u>118,465</u>	<u>81,535</u>
Total expenditures	<u>9,671,100</u>	<u>8,611,850</u>	<u>1,059,250</u>
Excess of revenues over (under) expenditures	<u>(993,560)</u>	<u>707,505</u>	<u>1,701,065</u>
Other financing sources and uses			
Transfers out	-	(565,299)	(565,299)
Proceeds from disposal of capital assets	<u>3,000</u>	<u>29,651</u>	<u>26,651</u>
Total other financing sources and uses	<u>3,000</u>	<u>(535,648)</u>	<u>(538,648)</u>
Net change in fund balances	<u>\$ (990,560)</u>	<u>\$ 171,857</u>	<u>\$ 1,162,417</u>

As shown in Table 3, Metro's total revenues were \$641,815 above projections. Management uses information provided by Greenville County and Anderson County to estimate projected property taxes and sewer fees. Investment income was \$36,261 above projections due to continued increases in interest rates. Tap fees and other revenue increased by \$116,955 due to the unexpected number of sewer connection permits to the Metro sanitary sewer system in FY 2018.

Metro's total expenditures were below budget by \$1,059,250 primarily due to less than budgeted expenses in salaries, wages, and benefits and operations and maintenance. Vacant positions in FY 2018 resulted in a decrease in salary, wages, and benefits. Operations and maintenance decreased mainly due to fewer planned projects in public relations and less sewer fee reimbursement appeals during the year.

Metropolitan Sewer Subdistrict of Greenville County

Management's Discussion and Analysis

June 30, 2018

Capital Assets and Debt Administration

Capital assets:

As of June 30, 2018, Metro's investment in capital assets amounted to \$186 million (net of accumulated depreciation) including sewer lines, land, buildings, equipment, and vehicles as shown in Table 4.

Table 4
Capital Assets

	<u>FY 2018</u>	<u>FY 2017</u>	<u>Increase (decrease) over 2017</u>	<u>Percentage increase (decrease)</u>
Vehicles	\$ 1,944,250	\$ 1,939,720	\$ 4,530	0.2%
Office equipment	78,856	72,094	6,762	9.4%
Computer equipment	194,083	171,138	22,945	13.4%
Software	564,644	270,526	294,118	108.7%
Maintenance equipment	1,001,528	962,929	38,599	4.0%
Pump station equipment	236,543	236,543	-	-
Administrative building	801,038	801,038	-	-
Training facility	1,269,100	1,269,100	-	-
O&M building	25,474	25,474	-	-
Shop equipment	32,540	15,714	16,826	107.1%
Maintenance shop buildings	308,795	308,795	-	-
Safety equipment	36,992	22,200	14,792	66.6%
Sewer lines and easements	<u>183,386,426</u>	<u>178,321,477</u>	<u>5,064,949</u>	<u>2.8%</u>
Sub-total	189,880,267	184,416,748	5,463,519	3.0%
Less accumulated depreciation	<u>3,685,058</u>	<u>3,289,481</u>	<u>395,577</u>	<u>12.0%</u>
Net capital assets	<u>\$ 186,195,208</u>	<u>\$ 181,127,267</u>	<u>\$ 5,067,941</u>	<u>2.8%</u>

The increase in the capital asset accounts are the result of general purchases that were budgeted. The increase in sewer lines is due primarily to developer installed sewer lines providing service to new commercial sites and residential subdivisions that were contributed to Metro of approximately \$5,007,000.

Metro uses the modified approach to account for its infrastructure assets. Under this approach, Metro manages its eligible infrastructure by use of an asset management system that provides for current inventories, condition assessments, and annual estimates of maintenance and preservation costs. Metro has committed to documenting and preserving its eligible infrastructure assets at a predetermined condition level by continuous condition assessments.

In FY 2018, Metro implemented Cityworks as our Work Order Asset Management System. Eligible infrastructure asset inventory is updated with new infrastructure on a continual basis and is maintained in our geographic information system (GIS) with mapping data along with operational data such as inspections, rehabilitation work, and investigations into issues.

Metropolitan Sewer Subdistrict of Greenville County

Management's Discussion and Analysis

June 30, 2018

Each individual gravity main segment (manhole to manhole pipeline) is assessed at least annually using information in several integrated information systems. All gravity main assets are scored on a 1-5 industry standard rating system with 1 being the best, and 5 the worst. An analytical model within the GIS pulls data from numerous sources to assess and score each individual asset based on the following:

- a. Physical condition – based on direct inspection observations, acoustic inspection testing, or inferred from inventory data based on pipe material and age.
- b. Operational conditions – based on operational factors such as flow characteristics, hydraulic settings, and its operating environment.

The condition assessment provides the individual pipe segment assessment that is based on the most recently performed inspection of the pipe segment, as opposed to the prior condition assessment information at the subdivision level. Integrated applications are used to implement proactive inspection, repair, and rehabilitation workflows, with each pipe segment being inspected on a minimum eight year cycle. The analytical model is run at least on an annual basis in order to calculate the detailed pipe segment condition assessment score and also generate a consequence score.

Debt administration:

Metro has no short-term or long-term debt.

Economic Factors and Next Year's Budgets and Rates

The following key economic factors were considered when Metro established next year's budget:

- The unemployment rate for Greenville County was 3.3% at June 30, 2018.
- The number of residential building permits issued in Greenville County was 8,699 during the year ended June 30, 2018.
- The number of commercial and other plumbing permits issued in Greenville County was 4,231 during the year ended June 30, 2018.
- The millage rate is 5.7 and is not expected to change.

Metropolitan Sewer Subdistrict of Greenville County

Management's Discussion and Analysis

June 30, 2018

Table 5
Fiscal Year 2019 Condensed General and Capital Projects Funds Operating Budget

Revenues	
Property taxes	\$ 5,028,470
Sewer fees	3,087,030
Investment income	35,000
Tap fees and other	765,500
Metro reserves	<u>7,017,140</u>
Total revenues	<u>\$ 15,933,140</u>
Expenditures	
Sewer lines	\$ 3,295,000
Other capital assets	613,400
Salaries, wages, and benefits	4,244,000
Operations and maintenance	7,480,740
Professional fees and outside services	<u>300,000</u>
Total expenditures	<u>\$ 15,933,140</u>

Metro's revenues are derived primarily from property taxes and sewer fees. New construction, whether commercial or residential, has a major effect on revenues. Metro estimates that revenue from property taxes to increase by 2% in FY 2019 due to the steady commercial and residential growth in Greenville County.

Requests for Information

This financial report is designed to provide a general overview of Metro's finances for all those with an interest in Metro's finances and to demonstrate Metro's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Metropolitan Sewer Subdistrict, 120 Augusta Arbor Way, Greenville, SC 29605.

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2018

Assets

Cash and cash equivalents	\$ 18,461,895
Investments	5,988,414
Receivables	
Property taxes, net	133,316
Interest	39,587
Prepaid Expenses	90,680
Capital assets not being depreciated	183,386,426
Capital assets, net of accumulated depreciation	<u>2,808,782</u>
Total assets	<u>210,909,100</u>

Deferred outflows of resources

Deferred outflows on net pension liability	<u>1,089,131</u>
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Liabilities

Accounts payable and accrued expenses	711,330
Noncurrent liabilities	
Due within one year:	
Compensated absences	74,193
Due in more than one year:	
Compensated absences	69,530
Other post-employment benefits liability	567,372
Net pension liability	<u>4,855,304</u>
Total liabilities	<u>6,277,729</u>

Deferred inflows of resources

Deferred inflows on net pension liability	<u>327,683</u>
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Net position

Net investment in capital assets	186,195,208
Restricted for capital activity	30,350
Unrestricted	<u>19,167,261</u>
Total net position	<u><u>\$ 205,392,819</u></u>

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

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program revenues		Net revenue and change in net position of primary government
	Expenses	Charges for services	Capital grants and contributions	Total
Primary Government				
Governmental activities				
General government	\$ 9,392,354	\$ 3,892,732	\$ 5,006,887	\$ (492,735)
Total governmental activities	<u>\$ 9,392,354</u>	<u>\$ 3,892,732</u>	<u>\$ 5,006,887</u>	<u>(492,735)</u>
General Revenues				
Property taxes				5,341,214
Interest income				71,261
Gain on disposal of capital assets				<u>24,500</u>
Total general revenues				<u>5,436,975</u>
Change in net position				4,944,240
Net position, beginning of year				<u>200,767,637</u>
Prior period adjustment (Note 13)				(319,058)
Net position, beginning of year (as restated)				<u>200,448,579</u>
Net position, end of year				<u><u>\$ 205,392,819</u></u>

The accompanying notes are in integral part of these financial statements.

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents			
Financial institutions	\$ 18,448,984	\$ -	\$ 18,448,984
Greenville County Treasurer	12,911	-	12,911
Investments	5,988,414	-	5,988,414
Receivables			
Interest	39,587	-	39,587
Property taxes and sewer fees, net	133,316	-	133,316
Prepaid Expenses	90,680	-	90,680
Total assets	<u>\$ 24,713,892</u>	<u>\$ -</u>	<u>\$ 24,713,892</u>
Liabilities, Deferred Inflows, and Fund Balances			
Liabilities			
Accounts payable and accrued expenses	\$ 711,330	\$ -	\$ 711,330
Total liabilities	<u>711,330</u>	<u>-</u>	<u>711,330</u>
Deferred Inflows of Resources			
Unavailable revenue-property taxes	10,852	-	10,852
Total deferred inflows of resources	<u>10,852</u>	<u>-</u>	<u>10,852</u>
Fund balances			
Restricted for future capital expenditures	30,350	-	30,350
Assigned for subsequent year's expenditures	-	-	-
Unassigned	23,961,360	-	23,961,360
Total fund balances	<u>23,991,710</u>	<u>-</u>	<u>23,991,710</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 24,713,892</u>	<u>\$ -</u>	<u>\$ 24,713,892</u>

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

**METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018**

Total fund balances - governmental funds	\$ 23,991,710
<i>Amounts reported for governmental activities in the statement of net position are different because of the following:</i>	
Outstanding property taxes which will be collected in the future but are not available soon enough to pay for current period expenditures and therefore are reported as deferred inflows in the governmental funds	10,852
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources related to pensions	1,089,131
Deferred inflows of resources related to pensions	(327,683)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(143,723)
OPEB	(567,372)
Net pension liability	(4,855,304)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciator of \$3,685,058	186,195,208
Net position - governmental activities	\$ 205,392,819

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

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

	General	Capital Projects	Total Governmental Funds
Revenues			
Property taxes	\$ 5,355,362	\$ -	\$ 5,355,362
Sewer fees	3,174,777	-	3,174,777
Interest income	71,261	-	71,261
Grant revenue	-	-	-
Tap fees and other	717,955	-	717,955
Total Revenues	<u>9,319,355</u>	<u>-</u>	<u>9,319,355</u>
Expenditures			
Salaries, wages, and benefits	3,351,190	-	3,351,190
Operations and maintenance	5,142,195	-	5,142,195
Professional fees and outside services	118,465	-	118,465
Capital outlay	<u>-</u>	<u>565,299</u>	<u>565,299</u>
Total expenditures	<u>8,611,850</u>	<u>565,299</u>	<u>9,177,149</u>
Excess of revenues over (under) expenditures	<u>707,505</u>	<u>(565,299)</u>	<u>142,206</u>
Other financing sources (uses)			
Transfers in (out)	(565,299)	565,299	-
Proceeds from disposal of capital assets	<u>29,651</u>	<u>-</u>	<u>29,651</u>
Total other financing sources (uses)	<u>(535,648)</u>	<u>-</u>	<u>29,651</u>
Net change in fund balances	171,857	(565,299)	171,857
Fund balances, beginning of year	<u>23,879,554</u>	<u>-</u>	<u>23,879,554</u>
Prior period adjustment (Note 13)	(59,701)	-	(59,701)
Fund balances, beginning of year (as restated)	<u>23,819,853</u>	<u>-</u>	<u>23,819,853</u>
Fund balances, end of year	<u><u>\$ 23,991,710</u></u>	<u><u>-</u></u>	<u><u>\$ 23,991,710</u></u>

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

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Net changes in fund balances - governmental funds \$ 171,857

Amounts reported for governmental activities in the statement
of activities are difference because:

Governmental funds report capital outlays as expenditures
while governmental activities report depreciation expense
to allocate those expenditures over the life of the assets.
This is the amount by which capital outlays exceeded
depreciation in the current period.

Capital outlay	\$ 565,299	
Current year depreciation	<u>(506,541)</u>	
		58,758

In the statement of activities, revenues that do not provide current
financial resources are not reported as revenues in the funds.

Net change in unavailable property tax revenue	(14,148)
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In the statement of activities, the gain on the disposal of
capital assets is reported in the statement of activities, while
only the proceeds are reported in the statement of revenues,
expenditures, and changes in fund balances.

Remaining book value of the disposed assets	(5,151)
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Some expenses reported in the statement of activities
require the use of current financial resources and therefore
are not reported as expenditures in governmental funds.

Compensated absences	(8,688)	
District's portion of collective pension expense	(235,337)	
OPEB costs	<u>(29,938)</u>	
		(273,963)

Revenues in the statement of activities that do not provide
current financial resources are not reported as revenues
in the governmental funds.

Contribution of sewer lines	<u>5,006,887</u>
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Change in net position of governmental activities	<u><u>\$ 4,944,240</u></u>
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The accompanying notes are an integral part of these financial statements.

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2018

	Original and final budget	Actual	Variance favorable (unfavorable)
Revenues			
Property taxes	\$ 4,935,040	\$ 5,355,362	\$ 420,322
Sewer fees	3,106,500	3,174,777	68,277
Interest income	35,000	71,261	36,261
Tap fees and other	601,000	717,955	116,955
Total revenues	<u>8,677,540</u>	<u>9,319,355</u>	<u>641,815</u>
Expenditures			
Salaries, wages, and benefits	3,941,000	3,351,190	589,810
Operations and maintenance	5,530,100	5,142,195	387,905
Professional fees and outside services	200,000	118,465	81,535
Total expenditures	<u>9,671,100</u>	<u>8,611,850</u>	<u>1,059,250</u>
Excess of revenues over (under) expenditures	<u>(993,560)</u>	<u>707,505</u>	<u>1,701,065</u>
Other financing sources (uses)			
Transfers in (out)	-	(565,299)	(565,299)
Proceeds from disposal of capital assets	3,000	29,651	26,651
Total other financing sources (uses)	<u>3,000</u>	<u>(535,648)</u>	<u>(538,648)</u>
Net change in fund balances	<u>\$ (990,560)</u>	<u>171,857</u>	<u>\$ 1,162,417</u>
Fund balances, beginning of year, as restated		<u>23,819,853</u>	
Fund balances, end of year		<u>\$ 23,991,710</u>	

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

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity:

The Metropolitan Sewer Subdistrict of Greenville County ("Metro") was created in 1969 by the General Assembly of the State of South Carolina. The purpose of Metro's creation was to provide sewer collection service within the boundary area of Renewable Water Resources (ReWa) to those established areas of Greenville County which, because of the population density, were in need of such service but did not lie within the boundaries of an existing special purpose district or municipality.

The financial statements of Metro have been prepared in conformity with the accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Metro also applies Financial Accounting Standards Board ("FASB") statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of Metro's accounting policies are described below.

Basis of presentation:

Metro's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide financial statements:

The statement of net position and the statement of activities display information of Metro as a whole. These statements include the financial activities of the primary government. For the most part, the effect of inter-fund activity has been removed from the statements.

The statement of net position presents the financial condition of the governmental activities for Metro at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of Metro's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of Metro. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of Metro.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fund financial statements:

During the year, Metro segregates transactions related to certain functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of Metro at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. There were no non-major funds.

Fund accounting:

The accounts of Metro are organized on the basis of funds, each which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred inflows/outflows, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. Metro only has governmental fund types.

Governmental Fund Types – Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; deferred inflows of resources are assigned to the fund from which the related future revenues are derived; and the difference between governmental fund assets and liabilities and deferred inflows of resources is referred to as fund balance. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise Metro's governmental funds:

General Fund – The General Fund is the general operating fund of Metro. It is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to other funds are accounted for in the General Fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any fund balance is considered a resource available for use.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Measurement focus and basis of accounting:

Government-wide financial statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Sewer fees are recognized in the year they are assessed. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise primarily in the timing of recognition of certain revenue and expense items.

The government-wide statements are prepared using a different measurement focus from the manner in which governmental fund basic financial statements are prepared (see further detail below). Governmental fund basic financial statements therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Fund financial statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Metro considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Capital asset expenditures are reported as expenditures in governmental funds. Proceeds of long term debt and acquisitions under capital leases would be reported as other financing sources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash has been received by the government. When both restricted and unrestricted resources are available for use, it is Metro's practice to use restricted resources first, then unrestricted resources as they are needed.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Fund balance:

Governmental funds report fund balance in classifications based primarily on the extent to which Metro is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable. Metro had no such amounts as of June 30, 2018.

Restricted Fund Balance – includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of Metro’s highest level of decision-making authority, the Commissioners of Metropolitan Sewer Subdistrict of Greenville County. Commitments may be changed or lifted only by Metro taking the same formal action that imposed the constraint originally (for example: ordinance). Metro had no such amounts as of June 30, 2018.

Assigned Fund Balance – includes amounts intended to be used by Metro for specific purposes that are neither restricted nor committed. Intent is expressed by (a) Commissioners or (b) an official (a director) to which the assigned amounts are to be used for specific purposes. The amount assigned to subsequent years expenditures represents the portion of fund balance that is appropriated in next year’s budget that is not already classified in restricted. The Commissioners approve the appropriation.

Unassigned Fund Balance – includes amounts that are not reported as nonspendable, restricted, committed, or assigned.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Net position:

Net position represents the difference between assets and liabilities and deferred inflows/outflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets, net of related debt. Instead, that portion of the debt is included in the same net position components as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position which does not meet the previously mentioned criteria is considered unrestricted. Restricted net position is comprised of a money market account that is for the sole use of maintaining a certain pump station and force mains.

The statement of net position may report deferred outflows of resources following the assets section and deferred inflows of resources following the liabilities section. Deferred outflows of resources represents a consumption of net position that applies to future periods and will not be recognized as an expenditure until then. Deferred inflows of resources represents an acquisition of net position that applies to future periods and will not be recognized as revenue until that time.

Cash and cash equivalents and investments:

Metro considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Metro's investment policy is to maintain collateral for all certificates of deposits in their name. Metro obtains multiple quotes on matured certificates of deposits and places the funds where Metro can obtain the most favorable rate. Investment purchases and sales are recorded as of the trade date. Other investment income is recognized when earned. Investments are reported at fair value except as noted below. Fair value is the amount reasonably expected to be received for an investment in a current sale between a willing buyer and a willing seller. Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expenses consist of external expenses directly related to Metro's investment operations.

Money market funds (such as short-term, highly liquid debt instruments including bankers' acceptances and securities notes, bills, and bonds of the U.S. government and its agencies), and participating interest-earning investment contracts (such as negotiable certificates of deposit, certificates of deposit, and repurchase agreements) with maturities at time of purchase of one year or less, are carried at amortized cost which approximates fair value.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Capital assets:

Capital assets, which include property, plant, and equipment and eligible infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined by Metro as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. All reported capital assets except infrastructure assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	39 years
Vehicles	5 years
Furniture, fixtures and equipment	7-10 years
Computer equipment	5 years
Software	3 years

Metro uses the modified approach to account for its infrastructure assets. Infrastructure assets include sewer lines and appurtenances. Under this approach, Metro manages its eligible infrastructure by use of an asset management system that provides for current inventories, condition assessments, and annual estimates of maintenance and preservation costs. Metro has committed to documenting and preserving its eligible infrastructure assets as a predetermined condition level by continuous condition assessments.

Budgets and budgetary accounting:

Budgets are prepared using the modified accrual basis of accounting. Budgeted amounts are as originally adopted by the Board of Commissioners. Appropriations lapse at the end of each fiscal year. No encumbrances are recorded.

The budget for the Capital Projects Fund includes both current year and future year expenditures as the funds are subject to the individual project expenditures determined by the cost of the project together with the requirements for external borrowings used to fund a particular project rather than annual appropriations alone. These budgets, when established, do not lapse at year end and are carried over to the completion of the project.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the period. Ultimate resolution of uncertainties could cause actual results to differ from these estimates.

Compensated absences:

The annual vacation leave policy of Metro provides for the accumulation of up to 25 days earned annual leave with such leave being fully vested when earned. Any unused annual leave in excess of the 25 days is forfeited as of December 31st of each year. The accumulated annual leave has been reported as a liability in the accompanying statement of net position.

The annual sick leave policy of Metro provides for an accumulation of up to 90 days of sick leave. Sick leave does not vest and Metro has no obligation for any sick leave until it is actually taken. Therefore, no accrual for sick leave has been made.

Accrued liabilities and long-term obligations:

All payables, accrued liabilities and long-term obligations are reported in the government-wide basic financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund basic financial statements regardless of whether they will be liquidated with current resources. However, long-term obligations, claims and judgments, compensated absences, and special termination benefits that will be paid from governmental funds are reported as liability only when due and payable.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Carolina Retirement System ("SCRS") and additions to/deductions from the SCRS' fiduciary net position have been determined on the same basis as they are reported by SCRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred outflows of resources and deferred inflows of resources:

Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources. In the governmental funds, unavailable property taxes are reported as deferred inflows of resources until the period in which the taxes become available.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Interfund transactions:

Transfers recorded by General Fund and Capital Projects Fund relate to payments made for construction and related project costs for budgeted expenditures.

New accounting standards:

The GASB has issued the following statements:

Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." – The primary objective of GASB No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or "OPEB"). The net OPEB liability will be reported on the statement of net position. The provisions of GASB No. 75 are effective for financial statements for periods beginning after June 15, 2017 (i.e. fiscal year ending June 30, 2018).

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

As of June 30, 2018, Metro had the following cash, cash equivalents and investments

Cash and cash equivalents	
Checking and other cash	\$ 18,461,895
Total cash and cash equivalents	<u>\$ 18,461,895</u>
Investments	
Money market account	\$ 30,386
Certificates of Deposit	5,000,000
SC Local Government Investment Pool	958,028
Total investments	<u>\$ 5,988,414</u>

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

Credit risk:

State law limits investments to obligations of the United States and agencies thereof, general obligations of the State of South Carolina or any of its political units, financial institutions to the extent that the same are secured by Federal Deposit Insurance, and certificates of deposits where the certificates are collaterally secured by securities of the type described above are held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest. Metro has no investment policy that would further limit its investment choices.

As of June 30, 2018, the underlying security ratings of Metro's investment in the South Carolina Local Government Investment Pool (SCLGIP or the Pool) may be obtained from the SCLGIP's complete financial statements. This investment pool does not have a credit quality rating assigned. These financial statements may be obtained by submitting a request to The State Treasurer's Office, Local Government Investment Pool, Post Office Box 11778, Columbia, South Carolina 29211.

Interest rate risk:

Metro's policy is to invest primarily in certificates of deposit with maturity dates of three to twelve months as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity of Metro's position in the SCLGIP is based on the average maturity of the Pool's investments, without regard to Metro's ability to withdraw funds on demand. It is the policy of the State Treasurer's Office that the weighted average maturity of the SCLGIP portfolio not exceed sixty days.

Concentration of credit risk:

Metro places no limit on the amount it may invest in any one issuer. More than 5 percent of Metro's investments are in Certificates of Deposit at one financial institution. These Certificates of Deposit investment are 83.49 percent of Metro's total investments.

Custodial credit risk deposits:

Custodial credit risk is the risk that in the event of a bank failure, Metro's deposits may not be returned. Metro has a policy that all deposits in financial institutions be collateralized. As of June 30, 2018, Metro's bank balance was \$18,759,343. All of Metro's deposits held at June 30, 2018 were insured or collateralized with securities held by Metro's agents in Metro's name as is required by the investment policy and state law.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS, Continued

Fair value of investments:

Metro categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Metro has the following recurring fair value measurements as of June 30, 2018:

- SC Local Government Investment Pool funds of \$958,028 are measured at the Net Asset Value (NAV).

The Pool investments are invested with the South Carolina State Treasurer's Office, which established the South Carolina Pool pursuant to Section 6-6-10 of the South Carolina Code. The Pool is an investment trust fund, in which public monies in excess of current needs, which are under the custody of any city treasurer or any governing body of a political subdivision of the State, may be deposited. In accordance with GASB Statement No. 31 "Accounting and Financial Reporting for Certain investments and for External Investment Pools", investments are carried at fair value determined annually based upon quoted market prices for identical or similar investments. The total fair value of the 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 Pool participants at any time and may be withdrawn through a website request. Financial statements for the Pool may be obtained by writing the Office of State Treasurer, Local Government Investment Pool, Post Office Box 11778, Columbia, South Carolina 29211-1950. Investments measured at the NAV per share as described in GASB 72 are not subject to the fair value hierarchy reporting.

NOTE 3 – PROPERTY TAXES RECEIVABLE

Property taxes are levied on property values as determined by the Greenville County and Anderson County Assessors. Property taxes levied for fiscal year 2018 includes 5.7 mills appropriated for Metro. These taxes are assessed on December 31st of the preceding year and are payable by January 15th of the current year. If not collected, the taxes are sent into execution on March 17th with a lien date of October 1st.

The Greenville County and Anderson County Treasurers allocate and remit Metro's portion of current and delinquent property taxes collected during the fiscal year. Property taxes receivable represents Metro's portion of those Greenville County and Anderson County property taxes collected by each County's Treasurer during the current year but not remitted to Metro until after June 30, 2018. Current and delinquent property taxes are summarized as follows:

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 – PROPERTY TAXES RECEIVABLE, Continued

	<u>Anderson County</u>	<u>Greenville County</u>	<u>Total</u>
Tax collected:			
Current	\$ 12,773	\$4,835,493	\$4,848,266
Delinquent	2,852	264,866	267,718
State inventory tax	-	43,955	43,955
Motor carrier tax	26	113,237	113,263
Sewer fee	29,319	3,145,458	3,174,777
	<u>44,970</u>	<u>8,403,009</u>	<u>8,447,979</u>
Receivable at June 30, 2017	710	152,087	152,797
Less change in unavailable property taxes from June 30, 2017	-	(14,148)	(14,148)
Less amounts received through June 30, 2018	<u>(44,156)</u>	<u>(8,409,156)</u>	<u>(8,453,312)</u>
Receivable at June 30, 2018	<u>\$ 1,524</u>	<u>\$ 131,792</u>	<u>\$ 133,316</u>

Estimated property taxes of \$122,464 have been recognized as revenue at June 30, 2018 because it will be collected within 60 days of year end and will be received by Metro or its fiscal agent (the County). The remaining delinquent property tax receivable of \$10,852 has been recorded by Metro as unavailable revenue at June 30, 2018 on the governmental fund basic financial statements because they will not be collected within 60 days after year end and are thus not considered available for accrual. Additionally, \$9,736 of sewer fees is included in the receivable at year-end.

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 – CAPITAL ASSETS

Primary government capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Balance June 30, 2017</u>	<u>Additions/ transfers</u>	<u>Retirements/ transfers</u>	<u>Balance June 30, 2018</u>
Governmental Activities				
Capital assets not being depreciated				
Infrastructure	\$ 177,758,266	\$ 5,628,160	\$ -	\$ 183,386,426
Easements	563,211	-	(563,211)	-
Total capital assets at historical cost not being depreciated	<u>178,321,477</u>	<u>5,628,160</u>	<u>(563,211)</u>	<u>183,386,426</u>
Capital assets being depreciated				
Building and improvements	2,404,407	-	-	2,404,407
Vehicles	1,939,720	90,625	(86,095)	1,944,250
Furniture, fixtures and equipment	1,309,480	101,851	(24,872)	1,386,459
Computer equipment	171,138	23,330	(388)	194,080
Software	270,526	294,302	(184)	564,644
Total capital assets at historical cost being depreciated	<u>6,095,271</u>	<u>510,108</u>	<u>(111,539)</u>	<u>6,493,840</u>
Less: accumulated depreciation				
Buildings and improvements	(639,787)	(77,659)	-	(717,446)
Vehicles	(1,450,818)	(188,437)	86,095	(1,553,160)
Furniture, fixtures and equipment	(952,224)	(104,351)	24,872	(1,031,703)
Computer equipment	(122,046)	(22,151)	-	(144,197)
Software	(124,606)	(113,946)	-	(238,552)
Total accumulated depreciation	<u>(3,289,481)</u>	<u>(506,544)</u>	<u>110,967</u>	<u>(3,685,058)</u>
Total capital assets being depreciated, net	<u>2,805,790</u>	<u>3,564</u>	<u>(572)</u>	<u>2,808,782</u>
Governmental activities capital assets, net	<u>\$ 181,127,267</u>	<u>\$ 5,631,724</u>	<u>\$ (563,783)</u>	<u>\$ 186,195,208</u>

Depreciation expense for the year ended June 30, 2018 totaled \$506,541.

Governmental activities donated assets for fiscal year 2018 consisted of infrastructure additions of \$5,006,887.

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 5 – LONG-TERM LIABILITIES

Long term liabilities consist of the following at June 30, 2018.

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
Compensated absences	\$ 135,035	\$ 74,193	\$ 65,505	\$ 143,723
Other postemployment benefits liability ¹	537,434	35,294	5,356	567,372
Net pension liability	4,617,786	514,739	277,221	4,855,304
Total	\$ 5,290,255	\$ 624,226	\$ 348,082	\$ 5,566,399

At June 30, 2018, \$74,193 of the compensated absences balance is expected to be due within one year.

NOTE 6 – PENSION PLANS

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems (Systems) and serves as co-trustee of the Systems in conducting that review.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

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. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

(Continued)

¹ See Note 13

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – PENSION PLANS, Continued

Plan descriptions:

The South Carolina Retirement System (“SCRS”), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

Membership:

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under the system is presented below.

SCRS – Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. 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. An employee member of the system with an effective date of membership on or after July 1, 2012 is a Class Three member.

Benefits:

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms for the system is presented below.

SCRS – 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. 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. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars 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.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – PENSION PLANS, Continued

Contributions:

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the SFAA for approval an increase in the SCRS employer and employee contribution rates, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS. An increase in the contribution rates adopted by the Board may not provide for an increase of more than one-half of one percent 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 thirty year amortization schedule of the unfunded liabilities of the plans, the Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

- Required **employee** contribution rates¹ are as follows:

	2018	2017
SCRS		
Employee Class Two	9.00%	8.66%
Employee Class Three	9.00%	8.66%

- Required **employer** contribution rates¹ are as follows:

	2018	2017
SCRS		
Employee Class Two	13.41%	11.41%
Employee Class Three	13.41%	11.41%
Employee Incidental Death	0.15%	0.15%

Contributions to the SCRS pension plan from Metro were \$277,221 and \$251,566 for the year ended June 30, 2018 and 2017 respectively. Metro does not participate in the State Optional Retirement Program (State ORP) or the South Carolina Police Officers Retirement System (PORS) pension plans.

Net pension liability:

At June 30, 2018, Metro reported a liability of \$4,855,304 for its proportionate share of the SCRS net pension liability. The net pension liability was measured as of July 1, 2017, and the total pension

¹ Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – PENSION PLANS, Continued

Net pension liability, continued:

liabilities used to calculate the net pension liability was determined by an actuarial valuation as of that date. Metro's proportionate shares of the net pension liability was based on a projection of Metro's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, Metro's proportionate share of the SCRS plan was 0.02157% as compared to 0.02162% as of June 30, 2017.

Pension expense:

For the year ended June 30, 2018, Metro recognized pension expense for the SCRS plan of \$512,558.

Deferred inflows of resources and deferred outflows of resources:

Metro reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the SCRS plan as follows:

	June 30, 2018	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 697,573	\$ 68,828
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	89,364	-
Changes in proportion and differences between Metro contributions and proportionate share of contributions		258,855
Metro contributions subsequent to the measurement date ¹	302,194	-
Total	<u>\$ 1,089,131</u>	<u>\$ 327,683</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the SCRS plan:

2019	\$178,177
2020	186,609
2021	132,164
2022	<u>(37,696)</u>
	<u>\$459,254</u>

¹ Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – PENSION PLANS, Continued

Actuarial assumptions and methods:

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Actuarial assumptions and methods used during the annual valuation process are subject to periodic revision, typically with an experience study, as actual results over an extended period of time are compared with past expectations and new estimates are made about the future.

South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued as of July 1, 2015. The June 30, 2017 total pension liability, net pension liability, and sensitivity information shown in this report were determined by the consulting actuary, Gabriel, Roeder, Smith and Company (“GRS”) and are based on an actuarial valuation performed as of July 1, 2015. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2015 valuation for the SCRS.

	SCRS
Actuarial cost method ¹	Entry age
Investment rate of return	7.25%
Projected salary increases	3.0% to 12.5% (varies by service) ¹
Benefit adjustments	lesser of 1% or \$500 annually

¹ Includes inflation at 2.25%

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – PENSION PLANS, Continued

Actuarial assumptions and methods, continued:

The post-retiree mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2015, valuations for SCRS are as follows.

Former Job Class	Males	Females
Educators	2016 PRSC Males multiplied by 92%	2016 PRSC Females multiplied by 98%
General Employees and members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%
Public Safety and Firefighters	2016 PRSC Males multiplied by 125%	2016 PRSC Females multiplied by 111%

Long-term expected rate of return:

The long-term expected rate of return on pension plan investments is based upon 30 year capital market assumptions. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. Expected returns are net of investment fees.

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 adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – PENSION PLANS, Continued

Long-term expected rate of return, continued:

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	45.0%		
Global Public Equity	31.0%	6.72%	2.07%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets	8.0%		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Commodities	1.0%	6.26%	0.06%
Opportunistic	17.0%		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	18.0%		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income	12.0%		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	0.92%	0.02%
Total Expected Real Return	100%		5.31%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.56%

Discount rate:

The discount rate used to measure the total pension liability was 7.25 percent. 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, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 – PENSION PLANS, Continued

Sensitivity analysis:

The following table presents Metro's proportionate share of the net pension liabilities of the respective plans calculated using the discount rate of 7.25 percent, as well as what Metro's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.25 percent) or 1.00 percent higher (8.25 percent) than the current rate.

<u>Sensitivity of the Net Pension Liability to Changes in the Discount Rate</u>			
System	1.00% Decrease (6.25%)	Discount Rate (7.25%)	1.00% Increase (8.25%)
SCRS	\$5,760,562	\$4,617,786	\$3,666,469

Pension plan fiduciary net position:

The net pension liability is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. The net pension liability totals, as of June 30, 2017 for SCRS are presented below.

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension
SCRS	\$48,244,437,494	\$25,732,829,268	\$22,511,608,226	53.3%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB 67 in the System's notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the Systems' audited financial statements for the fiscal year ended June 30, 2017 (including the unmodified audit opinion on the financial statements). Additional actuarial information is available in the accounting and financial reporting actuarial valuation as of June 30, 2017. This information can be accessed via the contact information provided above.

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 – EMPLOYEE BENEFITS

Metro offers medical and life insurance through Greenville County. Metro pays the entire cost of the employee portion of medical coverage, and will pay a portion of dependent medical coverage if elected by the employee. Metro pays for a \$50,000 life insurance policy through Reliastar Life Insurance contracted through Greenville County for each employee. Employees may elect additional employee, dependent, and/or child life insurance policies at the employee's expense. Medical and life insurance expense totaled \$590,782 for the year ended June 30, 2018.

Metro provides post-retirement health and dental care benefits for eligible retirees and their spouses under the same provisions provided to existing employees. See Note 8 for further information related to these benefits.

Metro offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457 and 401(k) plans. The plans, available to all Metro employees, permit employees to defer a portion of their salary until future years. The deferred compensation is not available (except through a retirement loan) to employees until termination, retirement, death, or unforeseeable emergency.

Great West Retirement Services, 8515 East Orchard Road, Greenwood Village, CO 80111, (under state contract) is the program administrator of both the 457 and the 401(k) Plans. The choice of deferred compensation options are selected by the participant.

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

Metro administers a single-employer defined benefit healthcare plan (the "Retiree Health Plan"). The plan provides post-retirement health, dental, and supplemental insurance benefits for eligible retirees and their spouses under the same provisions provided to existing employees. Benefit provisions are established by the Board of Commissioners. The Retiree Health Plan does not issue a publically available financial report. Metro pays a portion of the monthly premiums for health, dental or supplemental insurance coverage for these eligible retired plan members and their spouses in the amount of \$75 per month, with the retiree plan members paying the remainder of the premiums. As of year-end, four retiree and three spouses were receiving coverage benefits.

Funding Policy

Metro's annual other post-employment benefits (OPEB) cost (expense) is a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation

Health Insurance Continuation of Coverage – As required by the Consolidated Omnibus Budget and Reconciliation Act (COBRA), Metro provides medical insurance benefits to eligible former employees and eligible dependents based upon requirements outlined by the federal government for this coverage. The premium is paid in full by the insured on or before the tenth day of the month for the actual month covered. There is no associated cost to Metro.

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued

Total OPEB Liability – Metro’s total OPEB liability of \$567,372 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Average Retirement Age	65
Plan Asset Return	0.00 percent
Bond Yield	2.25 percent
Discount rate	2.25 percent
Salary increases	5.00 percent
Percentage Participation	100 percent

The discount rate was based on the 20-Bond GO Index.

Mortality rates were based on the July 1, 2017 SCRS valuation (see Note 7).

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study with a measurement date of June 30, 2018.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 537,434
Changes for the year:	
Service cost	29,207
Interest	731
Difference between expected/actual Experience	537,547
Changes in assumptions	(532,191)
Employer contributions	(5,356)
Net changes	29,938
Balance at June 30, 2018	<u>\$ 567,372</u>

(Continued)

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS, Continued

Post-Employment and Other Employee Benefits, Continued

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Metro, as well as what Metro's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.25 percent) or 1-percentage-point higher (3.25 percent) than the current discount rate:

	1% Decrease (1.25)	Discount Rate (2.25)	1% Increase (3.25)
Total OPEB liability	\$ 487,734	\$ 567,372	\$ 671,828

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - For the year ended June 30, 2018, Metro recognized OPEB expense of \$29,938. At June 30, 2018, Metro reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions or other inputs	-	-
Total	\$ -	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	\$ -
2020	\$ -
2021	\$ -
2022	\$ -
2023	\$ -

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 – CONSTRUCTION CONTRACTS IN PROGRESS

At June 30, 2018, Metro had commitments for various capital and rehabilitation projects. The following summarized the capital and rehabilitation contracts in progress at June 30, 2018 on which significant additional work is to be performed:

Number	Project Name	Contract amount	Total contract incurred through June 30, 2018	Balance to be performed
<u>Construction Phase:</u>				
14-4002	Donaldson Center Tank Wash	\$ 887,715	\$ 887,930	\$ -
15-4016	Aerial Stream Crossing Project	333,709	410,631	-
16-4004	Terra Pines Point Repair Project	1,259,030	1,330,760	-
16-4005	South Greenville Point Repair Project	1,249,945	149,920	1,100,025
		<u>\$ 3,730,399</u>	<u>\$ 2,779,241</u>	<u>\$ 1,100,025</u>
<u>Design Phase:</u>				
17-5001	Five Forks Sewer Relocations	\$ 39,000	\$ 37,635	\$ 1,365
17-5002	Roper Mountain Rd Ext Sewer Relocation	20,500	13,501	6,999
17-5003	Batesville Road Widening and Boling Park	31,100	-	31,100
18-4003	Donaldson Center Tank Wash	12,500	-	12,500
		<u>\$ 103,100</u>	<u>\$ 51,136</u>	<u>\$ 51,964</u>

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Due to the nature of Metro's normal activities, it is routinely subject to a variety of claims and demands by various individuals and entities. Loss contingencies are situations involving uncertainties as to possible loss. The uncertainties are resolved when certain events occur or fail to occur. Loss contingencies may result from litigation claims, audit disallowances, threatened property loss, or uncollectible receivables. Metro maintains insurance against certain loss contingencies with tort liability policies and physical damage coverage.

NOTE 11 – RISK MANAGEMENT

Metro is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and job related illnesses and accidents. Metro pays premiums to the State Accident Fund for workman's compensation insurance which is administered by a private insurance company. Metro pays the State Fiscal Accountability Authority (Insurance Reserve Fund) for all other forms of coverage.

The State Accident Fund and the State Fiscal Accountability Authority (Insurance Reserve Fund) promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There has been no significant reduction in coverage and amounts of settlements have not exceeded coverage in any of the last three years.

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 12 – TAX ABATEMENTS

Greenville County provides tax abatement incentives through three programs to encourage economic development, attract new businesses, and retain existing businesses – Fee in Lieu of Tax, Special Source Revenue Credits, and Multi-County Business Parks:

- A Fee in Lieu of Tax (FILOT) is authorized under South Carolina Code Title 12, Chapter 44, Title 4, Chapter 29, or Title 4, Chapter 12. The FILOT is used to encourage investment and provides a reduction of property tax when a business invests a minimum of \$2,500,000 within a 5-6 year investment period (beginning with date property is placed in service, ending five years after the last day of the property tax year in which the property is initially placed in service). The reduction in property taxes is accomplished by a reduction of assessed value, reduction in millage rate and elimination of (or reduction in) number of times millage rates are changed. In addition, an agreement may allow the possible use of net present value method over term of FILOT to equalize payments. Repayment of incentive is required by state law if taxpayer fails to meet statutory minimum investment requirement. Other recapture provisions may be negotiated (such as pro rata clawback for failure to meet and/or maintain jobs/investment).
- A Special Source Revenue Credit (SSRC) is authorized under South Carolina Code Sections 4-29-68, 4- 1-170, and 12-44-70. The SSRC is used to encourage investment and provides a credit against property taxes in the form of a percentage reduction or a dollar amount reduction. County manually applies SSRC to reduce applicable property tax bill. To receive the credit, a business must incur costs of designing, acquiring, constructing, improving, or expanding improved or unimproved real estate or personal property used in the operation of a manufacturing or commercial enterprise, infrastructure servicing the project, or certain aircraft.
- A Multi-County Business park (MCBP) is authorized under Article VIII, Section 13(d) of the Constitution of South Carolina, as amended and South Carolina Title 4, Chapter 1. A MCBP is used to promote the economic welfare of their citizens by inducing businesses to invest in the Counties through the offer of benefits available under South Carolina law pursuant to multi-county business park arrangements. The designation as a MCBP provides that all real and personal property located in the Park shall be exempt from all ad valorem taxation. This is typically used in the creation of a FILOT or SSRC, but also has the additional benefit of exemption of property from the rollback taxes when the property was previously taxed as agricultural property. When agricultural real property is applied to a use other than agricultural, it is subject to additional taxes, referred to as rollback taxes. The amount of the rollback taxes is equal to the sum of the differences, if any, between the taxes paid or payable on the basis of the fair market value for agricultural purposes and the taxes that would have been paid or payable if the real property had been valued, assessed, and taxed as other real property in the taxing district (except the value of standing timber is excluded), for the current tax year (the year of change in use) and each of the immediately preceding five tax years.

Metro's property tax revenues were reduced by \$925,161 under FILOT agreements entered into by Greenville County for the fiscal year ended June 30, 2018.

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 – PRIOR PERIOD ADJUSTMENT

Metro has recorded a prior period adjustment to the financial statements to adjust net other post-employment benefits (“OPEB”) liability and net position balance of prior years to implement GASB Statement No. 75, as described in Note 1. Also, Metro recorded a prior period adjustment for expenses that should have been posted to fiscal year 2017. The adjustment is summarized as follows:

	<u>Net Position</u>
Beginning net position, as previously reported at June 30, 2017	<u>\$ 200,767,637</u>
Prior period adjustments:	
Fiscal year 2017 expenses	(59,701)
Net OPEB liability	<u>(259,357)</u>
Net position, as restated at July 1, 2017	<u>\$ 200,448,579</u>

Metro has recorded a prior period adjustment to the financial statements fund balance of prior years for expenses that should have been posted to fiscal year 2017. The adjustment is summarized as follows:

	<u>Fund Balance</u>
Beginning fund balance, as previously reported at June 30, 2017	<u>\$ 23,879,554</u>
Prior period adjustments:	
Fiscal year 2017 expenses	<u>(59,701)</u>
Fund balance, as restated at July 1, 2017	<u>\$ 23,819,853</u>

NOTE 14 – SUBSEQUENT EVENTS

In preparing these financial statements, Metro has evaluated events and transactions for potential recognition or disclosure through February 11, 2019 the date the financial statements were available for issuance.

**METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
SEWER LINE CONDITION ASSESSMENT
YEAR ENDED JUNE 30, 2018**

CONDITION ASSESSMENT OF GRAVITY SYSTEM INFRASTRUCTURE ASSETS

FY2018					
	Condition Score	Unique Gravity Main Assets	Linear feet	Percent of Total	Miles
Best	1	17,333	3,151,381	91.6%	596.85
Good	2	788	137,466	4.0%	26.04
Acceptable	3	56	9,912	0.3%	1.88
Deficient	4	568	116,723	3.4%	22.11
Worst	5	98	22,918	0.7%	4.35
Total		<u>18,843</u>	<u>3,438,400</u>	<u>100%</u>	<u>651.23</u>

COMPARISON OF BUDGETED-TO-ACTUAL REHABILITATION PROJECTS AND MAINTENANCE PROJECTS CONTRACT

	FY2018	FY2017	FY2016	FY2015	FY2014
Budgeted	\$ 3,922,000	\$ 3,667,000	\$ 2,421,000	\$ 2,387,000	\$ 2,045,600
Actual	\$ 3,929,636	\$ 2,607,452	\$ 1,620,812	\$ 1,604,731	\$ 1,261,946

The condition assessment data that was used previously by MetroConnects was only able to provide data on an area at a time and not on an individual pipe segment basis. The investments made by MetroConnects to improve its asset inventory and implement other management applications tied directly to a unique asset have now provided the ability to assess the eligible infrastructure assets at a much finer level. Integrated applications such as the work management system is then used to implement proactive inspection, repair, and rehabilitation workflows. It is

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
SCHEDULE OF CHANGES IN METRO'S OPEB LIABILITY AND RELATED RATIOS
YEAR ENDED JUNE 30, 2018

For the last fiscal year

	<u>2018</u>
OPEB liability:	
Service cost	\$ 29,207
Interest	731
Employer contributions	(5,356)
Effect of assumptions	<u>5,356</u>
Net change in total OPEB liability	29,938
OPEB liability - beginning of year	<u>537,434</u>
OPEB liability - ending of year	<u><u>\$ 567,372</u></u>
Covered-employee payroll	<u><u>\$ 2,228,571</u></u>
OPEB liability as a percentage of covered-employee payroll	25.46%
Measurement date	June 30, 2018

Notes

(1) Pursuant to GASB 75, a 10-year history of the information shown above is required. However, until a full 10-year history is compiled, information for those years which are available may be presented.

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2018

	SCRS				
	2018	2017	2016	2015	2014
Metro's proportion of the net pension liability	0.02157%	0.02162%	0.02226%	0.02050%	0.02050%
Metro's proportionate share of the net pension liability	<u>\$ 4,855,304</u>	<u>\$ 4,617,786</u>	<u>\$ 4,221,147</u>	<u>\$ 3,529,076</u>	<u>\$ 3,676,610</u>
Metro's covered payroll during the measurement period	<u>\$ 2,228,571</u>	<u>\$ 2,093,521</u>	<u>\$ 2,086,829</u>	<u>\$ 1,860,914</u>	<u>\$ 1,732,268</u>
Metro's proportionate share of the net pension liability as a percentage of its covered-employee payroll	217.86625%	220.57510%	202.27565%	189.64208%	212.24256%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	52.91%	56.99%	56.90%	56.39%

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
SCHEDULE OF CONTRIBUTIONS
YEAR ENDED JUNE 30, 2018

	SCRS									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 302,194	\$ 251,566	\$ 231,543	\$ 227,464	\$ 197,257	\$ 183,620	N/A	N/A	N/A	N/A
Contributions in relation to the contractually required contribution	302,194	251,566	231,543	227,464	197,257	183,620	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A
Metro's covered-employee payroll	\$ 2,228,571	\$ 2,176,180	\$ 2,093,521	\$ 2,086,829	\$ 1,860,914	\$ 1,732,268	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	13.56%	11.56%	11.06%	10.90%	10.60%	10.60%	N/A	N/A	N/A	N/A

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, information presented is only for those years which are available.

METROPOLITAN SEWER SUBDISTRICT OF GREENVILLE COUNTY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2018

	Original and final budget	Actual	Variance favorable (unfavorable)
Revenues			
Grant revenue	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures			
Capital outlay	1,945,000	565,299	(1,379,701)
Total expenditures	<u>1,945,000</u>	<u>565,299</u>	<u>(1,379,701)</u>
Excess of revenues over (under) expenditures	<u>(1,945,000)</u>	<u>(565,299)</u>	<u>1,379,701</u>
Other financing sources (uses)			
Transfers in (out)	1,945,000	538,648	(1,406,352)
Proceeds from disposal of capital assets	<u>3,000</u>	<u>29,651</u>	<u>26,651</u>
Total other financing sources (uses)	<u>1,948,000</u>	<u>568,299</u>	<u>(1,379,701)</u>
Net change in fund balances	<u><u>\$ 3,000</u></u>	<u><u>3,000</u></u>	<u><u>\$ -</u></u>
Fund balances, beginning of year		<u>-</u>	
Fund balances, end of year		<u><u>\$ -</u></u>	



CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Board of Commissioners
Metropolitan Sewer Subdistrict of Greenville County
Greenville, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Metropolitan Sewer Subdistrict of Greenville County ("Metro"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Metro's basic financial statements, and have issued our report thereon dated February 11, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Metro's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metro's internal control. Accordingly, we do not express an opinion on the effectiveness of Metro's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metro's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Love Bailey & Associates, LLC

Love Bailey & Associates, LLC

Laurens, South Carolina

February 11, 2019