

**SPARTANBURG METROPOLITAN
SUB-DISTRICT B WATER
AND SEWER WORKS**

Spartanburg, South Carolina

Financial Statements

For the Year Ended June 30, 2016

Edwards & Hedrick, P.A.
Certified Public Accountants
1109 West Poinsett Street, Suite C
Greer, South Carolina 29650

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
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JUNE 30, 2016**

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SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS

Spartanburg, South Carolina

A Special Purpose District

created by the

South Carolina Legislature

1932

COMMISSIONERS

Bob Hinson

Bobby Morgan

Daryl Workman

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Spartanburg Metropolitan Sub-District B
Water and Sewer Works
Spartanburg, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business activities, each major fund, and the aggregate remaining fund information of Spartanburg Metropolitan Sub-District B Water and Sewer Works (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 Governmental Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business activities, each major fund, and the aggregate remaining fund information of Spartanburg Metropolitan Sub-District B Water and Sewer Works as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, thereof 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, budgetary comparison information, and pension plan schedules as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Spartanburg Metropolitan Sub-District B Water and Sewer Works' basic financial statements. The introductory section, and the other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

This information has 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2016, on our consideration of the Spartanburg Metropolitan Sub-District B Water and Sewer Works' 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* and should be considered in assessing the results of our audit.

September 6, 2016

Edwards & Hedrick, CPAs, P.A.
Edwards & Hedrick, CPAs, P.A.

SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Our discussion and analysis of the Spartanburg Metropolitan Sub-District B Water and Sewer Works (the District's) financial performance provides an overview of the District's financial activities for the year ended June 30, 2016. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of three parts – Management's Discussion and Analysis (this section), the Basic Financial Statements, and the Compliance Section. The intent of this discussion is to present the District's financial performance as a whole.

THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the Spartanburg Metropolitan Sub-District B Water and Sewer Works (the District) using the integrated approach as prescribed by GASB Statement No. 34.

The Government-Wide Financial Statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business type activities separately. These statements include all assets of the District as well as all liabilities.

The Fund Financial Statements include statements for each of the two categories of activities – governmental and business-type. The governmental activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting. The business-type activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The *Statement of Net Position* presents information on all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Net Position and the Statement of Activities (Continued)

The *Statement of Activities* presents information showing how the District's net position changed during the most recent 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 related cash flows. Thus, for some items, revenues and expenses are reported in this statement that will only result in cash flows in future periods (i.e. uncollected taxes).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

In the Statement of Net Position and the Statement of Activities, we separate the District Activities as follows:

Governmental Activities - Property tax collections are reported in this section. Historically, the property tax collections are transferred to the Proprietary Fund for general operations of the water and sewer works.

Business Type Activities - The District's water and sewer works is reported in this category.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the Governmental and Proprietary Funds. These two funds comprise the entire District.

Governmental Funds - Property tax collections are reported in this section. Historically, the property tax collections are transferred to the Proprietary Fund for general operations of the water and sewer works.

Proprietary Funds - When the District charges customers for services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the District's proprietary fund is the same as the business-type activity reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

FINANCIAL HIGHLIGHTS

During the year ending June 30, 2016, the District's total revenues increased \$65,900 (or 5.1%) and total expenses increased \$60,700 (or 4.5%), resulting in an operating loss of \$62,756. This is a decrease of \$5,100 in the operating loss sustained for the previous year. The increase in total revenues for this year was mainly the result of an increase in operating revenues. The increase in total expenses is the result of an increase in operating costs.

Financial Analysis of the District

Net Position - The District's net position decreased \$34,075 between fiscal years 2015 and 2016. This decrease was primarily due to increased operating costs partially offset by increased charges for services.

Spartanburg Metropolitan Sub-District B Water and Sewer Works Statement of Net Position

	June 30, 2016	June 30, 2015
Current and other assets	\$ 1,951,327	1,822,915
Capital assets	1,779,967	1,967,073
Total assets	<u>3,731,294</u>	<u>3,789,988</u>
Deferred outflows of resources	80,249	45,908
Other liabilities	101,359	130,781
Long-term liabilities	571,998	532,340
Total liabilities	<u>673,357</u>	<u>663,121</u>
Deferred inflows of resources	44,366	44,880
Net investment in capital assets	1,779,967	1,967,073
Unrestricted	1,313,853	1,160,822
Net position	<u>\$ 3,093,820</u>	<u>3,127,895</u>

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Financial Analysis of the District (Continued)

**Spartanburg Metropolitan Sub-District B Water and Sewer Works
Change In Net Position
For the Years Ended**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Operating revenues	\$ 917,957	\$ 846,556
Property taxes	442,360	448,452
Investment earnings	2,687	2,069
Total revenues	<u>1,363,004</u>	<u>1,297,077</u>
Interest expense	--	12,329
Operating expenses	<u>1,425,760</u>	<u>1,352,679</u>
Total expenses	<u>1,425,760</u>	<u>1,365,008</u>
Excess (deficiency) before special items	(62,756)	(67,931)
Tower rental	25,222	24,252
Gain on sale of assets	--	2,549
Miscellaneous revenue	3,459	1,384
Change in net position	(34,075)	(39,746)
Beginning net position	<u>3,127,895</u>	<u>3,167,641</u>
Ending net position	<u>\$ 3,093,820</u>	<u>\$ 3,127,895</u>

Final Budget versus Actual Results – Proprietary Fund

The budget excludes certain items from actual expenses, and includes other items for budgetary purposes. Depreciation is excluded from actual results for operating expenses, and fixed asset additions and principal reductions on debt are included for budgetary purposes. The District also budgets for receipt of loan and grant funds. The District's Board of Commissioners approved all expenditures in excess of the original budget.

Revenues exceeded the budget by \$83,600. The majority of this excess is attributable to charges for water and sewer services. Operating expenses exceeded the budget by \$102,400. The primary reason for this excess is due to insurance costs and water and sewer line maintenance. Non-operating revenues and expenses were under budget by \$112,800. This was due to lower capital asset additions than budgeted.

Final Budget versus Actual Results – Proprietary Fund (Continued)

Other financing sources are primarily transfers from the general fund of property taxes. Property taxes exceeded the budget as the District received more than the anticipated collection of property taxes from the County of Spartanburg.

**Spartanburg Metropolitan Sub-District B Water and Sewer Works
Actual versus Budget-Proprietary Fund
For the Year Ended June 30, 2016**

	<u>Actual</u>	<u>Budget</u>	Variance Favorable/ (Unfavorable)
Operating revenues	\$ 917,957	\$ 834,300	\$ 83,657
Operating expenses	1,161,629	1,059,208	(102,421)
Non-operating revenues (expenses)	(45,657)	(158,547)	112,890
Other financing sources	424,549	383,455	41,094

Capital Assets

As of June 30, 2016, the District has invested \$6,481,300 in capital assets net of \$4,701,300 of accumulated depreciation. This amount represents a net decrease (including additions and deductions) of \$187,100 (or 9.5%) over the prior year.

**Spartanburg Metropolitan Sub-District B Water and Sewer Works
Capital Assets**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Land and buildings	\$ 583,644	\$ 583,644
Distribution system	5,097,959	5,097,959
Office furniture & equipment	183,624	183,624
Vehicles	173,512	173,512
Machinery and equipment	442,595	365,570
Total Capital Assets	<u>6,481,334</u>	<u>6,404,309</u>
Accumulated depreciation	<u>(4,701,367)</u>	<u>(4,437,236)</u>
Total Net of Accumulated Depreciation	<u>\$ 1,779,967</u>	<u>\$ 1,967,073</u>

During the year, the District added \$77,025 in capital additions, and recorded depreciation expense of \$264,100. For more information on changes in capital assets, see Note 7 of the financial statements.

Pensions

Governmental Standards Board Statement No. 68 has created a long-term liability of \$571,998 the District's proportionate share of the South Carolina Retirement System's net pension liability as of June 30, 2016. For more information on the District's net pension liability, pension expense, deferred outflows and inflows of resources related to pensions, see Note 10 of the financial statements.

Economic Factors

The District's general area is a residential and commercial area. The economy of the area stabilized in 2010-11 and is beginning to see some commercial growth. Property tax growth is expected to rise for the next several years as the property values increase from the 2008 economic recession.

Fiscal Year 2016-17 Budget

Many factors were considered by the District's administration during the process of developing the 2016-17 budget. The District's budget was prepared to continue the vision and mission of the District. No new programs were added to the 2016-17 budget.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Spartanburg Metropolitan Sub-District B Water and Sewer Works at 7520 Jennings Street, Spartanburg South Carolina, 29303-1723, (864) 503-0822.

Basic Financial Statements

SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
STATEMENT OF NET POSITION
JUNE 30, 2016

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ -	\$ 1,580,540	\$ 1,580,540
Receivables:			
Taxes - net	23,037	-	23,037
Trade accounts	-	132,940	132,940
Due from County Treasurer	16,045	-	16,045
Inventory	-	37,190	37,190
Prepaid expenses	-	24,060	24,060
Designated cash	-	137,515	137,515
Capital assets, non depreciable	-	22,430	22,430
Capital assets, depreciable - net	-	1,757,537	1,757,537
TOTAL ASSETS	<u>39,082</u>	<u>3,692,212</u>	<u>3,731,294</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts related to pensions	-	80,249	80,249
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>80,249</u>	<u>80,249</u>
LIABILITIES			
Accounts payable:			
Trade accounts	-	38,430	38,430
Sewer collections	-	57,552	57,552
Accrued expenses	-	5,377	5,377
Noncurrent liabilities:			
Due within one year	-	-	-
Net pension liability	-	571,998	571,998
TOTAL LIABILITIES	<u>-</u>	<u>673,357</u>	<u>673,357</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	-	44,366	44,366
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>44,366</u>	<u>44,366</u>
NET POSITION			
Net Investment in capital assets	-	1,779,967	1,779,967
Unrestricted	39,082	1,274,771	1,313,853
TOTAL NET POSITION	<u>\$ 39,082</u>	<u>\$ 3,054,738</u>	<u>\$ 3,093,820</u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION		
<u>FUNCTIONS/PROGRAMS</u>	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
PRIMARY GOVERNMENT:	Expenses	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business-Type Activities:						
Water and sewer service	<u>1,425,760</u>	<u>917,957</u>	<u>-</u>	<u>-</u>	<u>(507,803)</u>	<u>(507,803)</u>
TOTAL - PRIMARY GOVERNMENT	<u>\$ 1,425,760</u>	<u>\$ 917,957</u>	<u>\$ -</u>	<u>-</u>	<u>(507,803)</u>	<u>(507,803)</u>
General Revenues:						
Property taxes levied for general purposes		442,360		442,360	-	442,360
Unrestricted investment earnings		-		-	2,687	2,687
Miscellaneous		-		-	3,459	3,459
Tower rental		-		-	25,222	25,222
Transfers:				<u>(424,549)</u>	<u>424,549</u>	<u>-</u>
Total general revenues and transfers		<u>17,811</u>		<u>17,811</u>	<u>455,917</u>	<u>473,728</u>
Change in net position		<u>17,811</u>		<u>17,811</u>	<u>(51,886)</u>	<u>(34,075)</u>
NET POSITION, Beginning of Year		<u>21,271</u>		<u>21,271</u>	<u>3,106,624</u>	<u>3,127,895</u>
NET POSITION, End of Year		<u>\$ 39,082</u>		<u>\$ 39,082</u>	<u>\$ 3,054,738</u>	<u>\$ 3,093,820</u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>GENERAL</u>
ASSETS	
Property taxes receivable - net	\$ 23,037
Due from County Treasurer	16,045
TOTAL ASSETS	\$ 39,082
DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenue - Property Taxes	\$ 21,555
FUND BALANCE	
Unassigned	17,527
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 39,082

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS	\$ 17,527
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, have been deferred in the funds.	<u>21,555</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ 39,082</u></u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>GENERAL</u>
REVENUES	
Property taxes	\$ <u>435,563</u>
TOTAL REVENUES	435,563
EXPENDITURES	<u>-</u>
EXCESS OF REVENUES OVER EXPENDITURES	435,563
OTHER FINANCING (USES) Operating transfers out	<u>(424,549)</u>
NET CHANGE IN FUND BALANCE	11,014
FUND BALANCE - BEGINNING OF YEAR	<u>6,513</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 17,527</u></u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS	\$	11,014
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. They are considered revenues in the Statement of Activities.		
		6,797
TOTAL CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	17,811

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	<u>ENTERPRISE</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 1,580,540
Receivables:	
Trade accounts	132,940
Inventory	37,190
Prepaid expenses	24,060
Total Current Assets - Unrestricted	<u>1,774,730</u>
Designated Assets	
Cash and cash equivalents - designated	137,515
Total Designated Assets	<u>137,515</u>
Total Current Assets	<u>1,912,245</u>
Noncurrent assets	
Capital Assets:	
Nondepreciable	22,430
Depreciable, net	1,757,537
Total Noncurrent Assets	<u>1,779,967</u>
TOTAL ASSETS	<u>3,692,212</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts related to pensions	80,249
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>80,249</u>
LIABILITIES	
Current liabilities	
Accounts payable:	
Trade accounts	38,430
Sewer collections	57,552
Accrued expenses	5,377
Total Current Liabilities	<u>101,359</u>
Non-current liabilities	
Net pension liability	571,998
Total Noncurrent Liabilities	<u>571,998</u>
TOTAL LIABILITIES	<u>673,357</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts related to pensions	44,366
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>44,366</u>
NET POSITION	
Net investment in capital assets	1,779,967
Unrestricted	1,274,771
TOTAL NET POSITION	<u><u>\$ 3,054,738</u></u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	ENTERPRISE		TOTAL
	WATER DEPARTMENT	SEWER DEPARTMENT	
OPERATING REVENUES			
Water and sewer service	\$ 754,827	\$ 159,105	\$ 913,932
Meter, tap and application fees	4,025	-	4,025
Total Operating Revenues	<u>758,852</u>	<u>159,105</u>	<u>917,957</u>
OPERATING EXPENSES			
Purchases of water	316,766	-	316,766
Depreciation	250,661	13,470	264,131
General, administrative, customer service, and other	653,968	190,895	844,863
Total Operating Expenses	<u>1,221,395</u>	<u>204,365</u>	<u>1,425,760</u>
OPERATING INCOME (LOSS)	<u>\$ (462,543)</u>	<u>\$ (45,260)</u>	<u>(507,803)</u>
NONOPERATING REVENUES (EXPENSES)			
Tower rental			25,222
Interest revenue			2,687
Miscellaneous income			3,459
Total Nonoperating Revenues (Expenses)			<u>31,368</u>
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES			<u>(476,435)</u>
OTHER FINANCING SOURCES			
Operating transfers in			424,549
Total Other Financing Sources			<u>424,549</u>
CHANGE IN NET POSITION			(51,886)
NET POSITION - BEGINNING OF YEAR			<u>3,106,624</u>
NET POSITION - END OF YEAR			<u>\$ 3,054,738</u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
INCREASE (DECREASE) IN CASH AND DESIGNATED CASH

		Enterprise
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES		
Cash received from customers		\$ 905,528
Cash paid to suppliers		(875,217)
Cash paid to employees		(316,265)
NET CASH (USED FOR) OPERATING ACTIVITIES		<u>(285,954)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating transfers in	\$ 424,549	
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES		424,549
CASH FLOWS FROM (USED FOR) CAPITAL & RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets		<u>(77,025)</u>
NET CASH (USED FOR) CAPITAL & RELATED FINANCING ACTIVITIES		(77,025)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	2,687	
Miscellaneous revenue	3,459	
Tower rental	<u>25,222</u>	<u>31,368</u>
NET INCREASE IN CASH & CASH EQUIVALENTS		92,938
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		<u>1,625,117</u>
CASH AND CASH EQUIVALENTS - END OF YEAR		<u>\$ 1,718,055</u>

Reconciliation of Cash and Cash Equivalents to the Balance Sheet

	End of Year	Beginning of Year
Unrestricted cash and cash equivalents	\$ 1,580,540	\$ 1,487,628
Designated cash and cash equivalents	<u>137,515</u>	<u>137,489</u>
Total cash and cash equivalents	<u>\$ 1,718,055</u>	<u>\$ 1,625,117</u>

Reconciliation of Proprietary Operating Loss to Net Cash Used for Operating Activities

Proprietary operating loss		\$ (507,803)
Adjustments		
Depreciation expense	\$ 264,131	
Increase in deferred outflows of resources	(34,341)	
Increase in inventory	(3,285)	
Increase in trade payables	7,696	
Decrease in deferred inflows of resources	(514)	
Increase in accrued expenses	1,347	
Decrease in sewer collections payable	(38,465)	
Increase in net pension liability	39,658	
Increase in prepaids	(1,949)	
Increase in trade receivables	<u>(12,429)</u>	
Total adjustments		<u>221,849</u>
Net cash (used for) operating activities		<u>\$ (285,954)</u>

See Independent Auditors' Report and Accompanying Notes to Financial Statements.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 1 - HISTORY AND ORGANIZATION

Spartanburg Metropolitan Sub-District B Water and Sewer Works (the District) is a special purpose district created in 1932 by an Act of the General Assembly of the State of South Carolina. The District is exempt from federal and state income taxes and local property taxes. All customers served by the District are located in Spartanburg County within the geographical boundaries established by the General Assembly of South Carolina in 1932. The District is a primary government with no component units. The District is governed by a three member commission elected by citizens residing within the District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America, 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. The more significant of the District’s accounting policies are described below.

Basis of Accounting

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 the related cash flows. Property taxes are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. The governmental fund financial statements use a flow of current financial resources measurement focus. With this measurement focus, generally only current assets and current liabilities are included in the balance sheet. The operating statement for this fund presents increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The governmental fund types are maintained using the modified accrual basis of accounting whereby revenues are recorded in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures are recorded at the time the related fund liabilities are incurred. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable. Those revenues susceptible to accrual are property taxes.

SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. The accrual basis of accounting is utilized by the proprietary fund type. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Governmental Fund Type

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District that are not required to be accounted for in the Enterprise Fund.

In the Fund financial statements, fund balance consists of Nonspendable fund balance which includes amounts that cannot be spent because they are not in spendable form, or they are legally or contractually required to be maintained intact. Restricted fund balance are amounts restricted to specific purposes. Committed fund balance are amounts that can only be used for specific purposes as pursuant to official action by the Commissioners prior to the end of the reporting period. Assigned fund balance are amounts the District intends to use for a specific purpose but is neither restricted nor committed. The Commissioners have authority to assign fund balance. Unassigned fund balance represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

When restricted and other fund balance resources are available for use, it is the District's policy to use restricted resources first, followed by committed, assigned, and unassigned amounts, respectively.

Proprietary Fund Type

The Proprietary Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis is financed through user charges.

Encumbrance Accounting

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

Budgets are presented in the required supplementary information section of the financial statements for the General Fund and Proprietary Fund. The General Fund budget is presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America. The Proprietary Fund budget is prepared on the accrual basis with the following adjustments: (1) The District does not budget depreciation expense; and (2) the District includes Capital asset additions and long-term debt reduction as expenses. Each budget is prepared by function and object as dictated by the State of South Carolina adopted Program Oriented Budgeting and Accounting System and for management control purposes.

Prior to July 1 each year, the Board of Commissioners adopts an annual budget ordinance for the General Fund and Proprietary Fund. The presented budgetary information is as originally adopted or as amended by the Board of Commissioners. The Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budgets and Actual – contain the original budget and the final budget.

Inventories

Materials and supplies are carried in an inventory account and valued at the lower of average cost or market.

General Fixed Assets

Fixed assets used in proprietary fund type operations are accounted for in the Enterprise Fund. Fixed assets are carried at cost. Additions and betterments are capitalized; maintenance and repairs are expensed in the year incurred. When properties are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income.

Depreciation has been calculated on each class of depreciable property using the straight-line method. The composite rates are as follows:

Water and sewer lines	1½ – 10%
Office buildings	2 – 6⅔%
Office equipment	10 – 20%
Vehicles	10 – 20%
Work equipment	10 – 20%

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative Data

Comparative data (i.e., presentation of prior year totals by fund type) has not been presented in each of the statements since their inclusion would make the statement unduly complex and difficult to read.

Cash Equivalents, Deposits and Investments

Cash and cash equivalents, for purposes of the statement of cash flows, include restricted, designated, and unrestricted cash on hand or on deposit, certificates of deposit, and investments with a maturity of three months or less.

Investments are reported at their fair value. The District is permitted to invest through various investment advisors in a pool managed by the South Carolina State Treasurer, certificates of deposit, repurchase agreements, and United States or State of South Carolina general obligations.

The District does not typically invest its available funds in security investments and thus has not developed a policy for credit risk, custodial credit risk, concentration of credit risk, or interest rate risk for these types of investments. The District's current policy does not utilize amortized cost for any applicable investments.

Reporting Entity

The District's general purpose financial statements include the accounts of all District operations. The District is not included in any other "reporting entity" as defined in GASB pronouncements, since Commissioners of the District are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Designated and Restricted Assets

Whereas *restricted* assets represent cash and investments maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the District or by agreement for funding certain debt service payments, *designated* assets represent cash that has been designated formally and consistently by Board action.

Impact fees, which are held in water capital funds, are considered designated assets. These fees are cash contributed capital received in exchange for the purchase of capacity in the system. The capacity certificate represents ownership of system capacity, and, as such, the District must ensure that the funds are utilized for growth infrastructure.

Capital Contributions

Contributions are recognized in the Statement of Revenues, Expenses and Changes in Net Position when earned. Contributions include impact fees, and other supplemental support by customers.

Receivables

All property taxes receivable are shown net of an allowance for uncollectibles. The District uses the direct write-off method for uncollectible water and sewer receivables. The District uses the direct write-off method due to the historically immaterial amounts of bad debts incurred. Management knows of no water and sewer receivables that should be written off. The direct write-off method is not in accordance with United States generally accepted accounting principles. Had United States generally accepted accounting principles been used, the financial statements taken as a whole would not change materially from the statements presented.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Outstanding debt, which has not been spent, is included in the same net assets component as the unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. District contributions to the Plan subsequent to the measurement date and the net difference between expected and actual experience in the pension Plan are included as deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The net difference between expected and actual experience in the pension plan and changes in proportion and differences between employer contributions and proportionate share of contributions are included as deferred inflows of resources.

General and Administrative Expense Allocations

For the purposes of the Statement of Revenues, Expenses and Changes in Net Position, general and administrative expenses were allocated at approximately 80% and 20% to the water and sewer divisions for fiscal year ended June 30, 2016. This allocation is based on revenues derived from the respective divisions and is reviewed each year by Management.

NOTE 3 - WATER SERVICE AGREEMENT

In August of 1987, the District entered into an agreement with the Commissioners of Public Works of the City of Spartanburg, South Carolina, which allows the District to purchase its entire water supply from them. Construction of the water system improvements necessary pursuant to this agreement was completed in October of 1988. The District's distribution system includes \$296,472 of construction costs relating to this project. Total water purchases pursuant to this agreement during the year ended June 30, 2016 were \$316,766.

NOTE 4 - COMPENSATED ABSENCES

Employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for any unused accumulated leave. The District has no liability for unused vacation and sick pay since all vacation and sick leave is used or lost if not taken each year. Vacation and sick pay are charged to operations when taken by the employees of the District.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 5 - PROPERTY TAXES

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

Assessed values for real estate are established annually by the County Tax Assessor based on the assessment ratio applied to the appropriate class of property. Real and personal property taxes, excluding merchants' inventory and vehicles, in the District's area was assessed at 57.6 mills on approximately 6.6 million of property value.

The District has recorded uncollected, delinquent property taxes at June 30, 2016, of \$23,037 (net of allowance for uncollectibles portion of \$8,571). Delinquent property taxes of \$1,482 have been recognized as revenue at June 30, 2016, because they are expected to be collected within 60 days of the year end. The remaining amount of \$21,555 has been recorded as deferred inflows of resources on the governmental fund statements because they will not be collected within 60 days after year end.

The District has established an allowance for uncollectible property taxes. At June 30, 2016, the allowance totaled \$8,571.

NOTE 6 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The District does not have a deposit policy for custodial credit risk but follows the investment policy statutes of the State of South Carolina. As of June 30, 2016, none of the District's bank balances of \$1,775,430 (which had a carrying value of \$1,718,055) were exposed to custodial credit risk.

Credit Risk

Investments of the District must comply with South Carolina Code Section 6-5-10, which states that the District may invest money subject to its control and jurisdiction in, obligations of the United States and agencies thereof, general obligations of the State of South Carolina or any of its political units, savings and loan associations to the extent that the same are insured by an agency of the Federal Government, certificates of deposit where the certificates are collaterally secured by the U.S. Treasury or its agencies, and repurchase agreements when collateralized by securities as

SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 6 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Credit Risk (Continued)

set forth in this section. The provisions of South Carolina Code Section 6-5-10 do not impair the power of the District to hold funds in deposit accounts with banking institutions as otherwise authorized by law. The District has not developed a formal policy for credit risk, custodial credit risk, or concentration of credit risk.

NOTE 7 - CAPITAL ASSETS

The capital asset activity for the District for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business – Type Activities:				
Capital Assets, Non-Depreciable:				
Land	\$ 22,430	\$ --	\$ --	\$ 22,430
Total Capital Assets, Non-depreciable	<u>22,430</u>	<u>--</u>	<u>--</u>	<u>22,430</u>
Capital Assets, Depreciable:				
Buildings and improvements	561,214	--	--	561,214
Distribution system	5,097,959	--	--	5,097,959
Office furniture and fixtures	183,624	--	--	183,624
Vehicles	173,512	--	--	173,512
Machinery and equipment	365,570	77,025	--	442,595
Total Capital Assets, Depreciable	<u>6,381,879</u>	<u>77,025</u>	<u>--</u>	<u>6,458,904</u>
Less: Accumulated Depreciation for:				
Buildings and improvements	319,740	12,807	--	332,547
Distribution system	3,536,985	201,879	--	3,738,864
Office furniture and fixtures	169,737	4,127	--	173,864
Vehicles	136,582	17,009	--	153,591
Machinery and equipment	274,192	28,309	--	302,501
Total Accumulated Depreciation	<u>4,437,236</u>	<u>264,131</u>	<u>--</u>	<u>4,701,367</u>
Total Capital Assets – Depreciable, Net	<u>1,944,643</u>	<u>(187,106)</u>	<u>--</u>	<u>1,757,537</u>
Business – Type Activities Capital Assets, Net	<u>\$ 1,967,073</u>	<u>\$ (187,106)</u>	<u>\$ --</u>	<u>\$ 1,779,967</u>

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 8 - INTERFUND OPERATING TRANSFERS

Individual fund operating transfers for the year ended June 30, 2016, were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	--	A) \$ 424,549
Enterprise Fund	A) \$ <u>424,549</u>	<u> --</u>
Totals	\$ <u>424,549</u>	\$ <u>424,549</u>

A) To transfer property tax revenues levied for operations of the District.

NOTE 9 - 401(k) SAVINGS PLAN

A deferred compensation plan is available to District employees. The multi-employee plan, created under the Internal Revenue Code Section 401(k) is administered and accounted for by the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate employment with approval of the State's Deferred Compensation Commission. Employees may also withdraw the current value of their contributions prior to termination of employment if they meet certain requirements. The plan, available to all District employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional and participants elect how their salary deferrals are invested.

Compensation deferred under the plan is placed in trust for the contributing employees. Neither the State nor the District has any liability for losses under the plan.

NOTE 10 - PENSION PLAN

General Information about the Pension Plan

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 fiduciary net position of the South Carolina Retirement System (SCRS) and additions to/deductions from SCRS's fiduciary net position have been determined on the same basis as they are reported by the SCRS in accordance with accounting principles generally accepted in the United States of America. 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.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 10 - PENSION PLAN (CONTINUED)

Plan Description

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.

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 Budget and Control Board (State Fiscal Accountability Authority effective July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review. PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publicly available on 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, PO Box 11960, Columbia, SC 29211-1960. 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.

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 Provided

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.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 10 - PENSION PLAN (CONTINUED)

Benefits Provided (Continued)

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 age eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and 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 rates of earnable compensation are as follows:

	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2015</u>
SCRS		
Employee Class Two	8.16%	8.00%
Employee Class Three	8.16%	8.00%

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 10 - PENSION PLAN (CONTINUED)

Contributions (Continued)

Required employer contributions of earnable compensation are as follows:

	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2015</u>
SCRS		
Employee Class Two	10.91%	10.75%
Employee Class Three	10.91%	10.75%
Employer Incidental Death Benefit	0.15%	0.15%

Contributions to the SCRS pension plan from the District were \$33,426 for the year ended June 30, 2016.

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

At June 30, 2016, the District reported a liability of \$571,998 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability was determined based on the July 1, 2014, actuarial valuations using membership data as of July 1, 2014, rolled forward from the valuation date to the Plan's fiscal year ended June 30, 2015, using generally accepted actuarial procedures. Actuarial information is based on the certification provided by the SCRS's Consulting Actuary, Gabriel, Roeder, Smith and Company.

For the year ended June 30, 2016, the District recognized pension expense of \$38,228. At June 30, 2016, the District reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between expected and actual experience	\$ 46,823	\$ 33,856
Change in proportion and differences between employer contribution and proportionate share of Plan contributions	--	10,510
District contributions subsequent to the measurement date	33,426	--
	<u>\$ 80,249</u>	<u>\$ 44,366</u>

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 10 - PENSION PLAN (CONTINUED)

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

\$33,426 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
	2017	\$ (873)
	2018	(873)
	2019	(4,364)
	2020	8,567
	2021	--
	Thereafter	--
		\$ 2,457

Actuarial Assumptions

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. Amounts determined during the valuation process are subject to continual revision as actual results 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. The last experience study was performed on data through June 30, 2010, and the next experience study performed on data through June 30, 2015, is currently underway.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for SCRS.

	SCRS
Actuarial cost method	Entry age
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.5% to 12.5%
Includes inflation at	2.75%
Benefit adjustments	lesser of 1% or \$500

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 10 - PENSION PLAN (CONTINUED)

Actuarial Assumptions (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.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2013. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provision and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 10 – PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	5.0%		
Cash	2.0%	1.90%	0.04%
Short Duration	3.0%	2.00%	0.06%
Domestic Fixed Income	13.0%		
Core Fixed Income	7.0%	2.70%	0.19%
High Yield	6.0%	3.80%	0.23%
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	2.80%	0.08%
Emerging Markets Debt	6.0%	5.10%	0.31%
Global Public Equity	31.0%	7.10%	2.20%
Global Tactical Asset Allocation	10.0%	4.90%	0.49%
Alternatives	32.0%		
Hedge Funds (Low Beta)	8.0%	4.30%	0.34%
Private Debt	7.0%	9.90%	0.69%
Private Equity	9.0%	9.90%	0.89%
Real Estate (Broad Market)	5.0%	6.00%	0.30%
Commodities	3.0%	5.90%	0.18%
Total Expected Real Return	100.0%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 10 – PENSION PLAN (CONTINUED)

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1–percentage–point lower (6.50 percent) or 1–percentage–point higher (8.50 percent) than the current rate:

	1.0% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
District’s Proportionate Share of the Net Pension Liability	<u>\$ 721,127</u>	<u>\$ 571,998</u>	<u>\$ 447,010</u>

Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS and PORS. The CAFR of the Pension Trust Funds is publicly available on PEBA’s Retirement Benefits’ website at www.retirement.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

Payables to the Pension Plan

At June 30, 2016, the District’s outstanding payable to the SCRS totaled \$5,293.

NOTE 11 – DESIGNATED AND RESTRICTED CASH

Certain resources set aside for their repayment or to satisfy certain restrictive covenants of the bond agreements, are classified as *restricted* cash on the balance sheet because their use is limited by those covenants.

Designated cash funds are established by consistent Board action and are included in the funding sources available for Board approval. The “contingency fund” account is used to accumulate resources to be used for contingencies and for improvements, betterments, and extensions of the system.

Impact fees are accumulated in an account to pay for future expansion of the District’s water distribution system.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 11 – DESIGNATED AND RESTRICTED CASH (CONTINUED)

The components of designated cash as of June 30, 2016 were as follows:

Board designated:		
Contingency fund	\$	60,348
Impact fees		<u>77,167</u>
Total	\$	<u><u>137,515</u></u>

NOTE 12 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains insurance coverage with outside carriers for workman's compensation, a commercial package policy covering buildings and contents and storage tanks and pumps, a commercial vehicle policy covering the District's vehicles, and a commercial general liability policy. The District did not have settled claims that exceeded the District's insurance coverage in any of the last three years. Accordingly, there was no liability or expense recorded for actual claims, and management does not believe any provisions for unasserted claims is necessary.

In addition, the District provides a health insurance program for its employees. The District pays a monthly premium to the insurer for its health coverage (insured plan) with the insurer being responsible for claims.

NOTE 13 – EXPENDITURES IN EXCESS OF APPROPRIATIONS

The Board (governing body) approved all expenditures in excess of the original budget.

NOTE 14 – SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through September 6, 2016, the date on which the financial statements were available to be issued.

Required Supplementary Information

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
REQUIRED SUPPLEMENTARY INFORMATION - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>BUDGET AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES				
Property taxes	\$ 383,455	\$ 383,455	\$ 435,563	\$ 52,108
Total Revenues	383,455	383,455	435,563	52,108
EXPENDITURES	-	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	383,455	383,455	435,563	52,108
OTHER FINANCING (USES)				
Operating transfers out	(383,455)	(383,455)	(424,549)	(41,094)
NET CHANGE IN FUND BALANCE	\$ -	\$ -	\$ 11,014	\$ 11,014

Note: This schedule has been presented on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
REQUIRED SUPPLEMENTARY INFORMATION - PROPRIETARY FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
ACTUAL COMPARED TO BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2016**

	BUDGET AMOUNTS		ACTUAL AMOUNTS	VARIANCE
	ORIGINAL	FINAL	(BUDGETARY BASIS)	
OPERATING REVENUES				
Water and sewer service	\$ 828,800	\$ 828,800	\$ 913,932	\$ 85,132
Meter, tap and application fees	5,500	5,500	4,025	(1,475)
Total Operating Revenues	<u>834,300</u>	<u>834,300</u>	<u>917,957</u>	<u>83,657</u>
OPERATING EXPENSES				
Purchases of water	325,600	325,600	316,766	8,834
Depreciation	-	-	-	-
General, administrative, customer service, and other	733,608	733,608	844,863	(111,255)
Total Operating Expenses	<u>1,059,208</u>	<u>1,059,208</u>	<u>1,161,629</u>	<u>(102,421)</u>
OPERATING LOSS	<u>(224,908)</u>	<u>(224,908)</u>	<u>(243,672)</u>	<u>(18,764)</u>
NONOPERATING REVENUES (EXPENSES)				
Tower rental	24,500	24,500	25,222	722
Interest revenue	5,000	5,000	2,687	(2,313)
Miscellaneous income	-	-	3,459	3,459
Capital asset additions	(188,047)	(188,047)	(77,025)	111,022
Total Nonoperating Revenues (Expenses)	<u>(158,547)</u>	<u>(158,547)</u>	<u>(45,657)</u>	<u>112,890</u>
LOSS BEFORE OTHER FINANCING SOURCES	<u>(383,455)</u>	<u>(383,455)</u>	<u>(289,329)</u>	<u>94,126</u>
OTHER FINANCING SOURCES				
Operating transfers in	383,455	383,455	424,549	41,094
Total Other Financing Sources	<u>383,455</u>	<u>383,455</u>	<u>424,549</u>	<u>41,094</u>
CHANGE IN NET POSITION	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 135,220</u>	<u>\$ 135,220</u>

Note: The District does not budget depreciation expense and includes Capital asset additions as an expense in the budget. Actual operating expenses have been reduced by \$264,131 (depreciation expense) and nonoperating expenses have been increased by \$77,025 of Capital asset additions.

SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
 REQUIRED SUPPLEMENTARY INFORMATION - PROPRIETARY FUND
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 SOUTH CAROLINA RETIREMENT SYSTEM
 LAST 10 FISCAL YEARS*

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
District's proportion of the net pension liability	0.0030%	0.0031%	0.0031%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
District's proportionate share of the net pension liability	\$571,998	\$532,340	\$554,595							
District's covered-employee payroll	\$302,224	\$280,692	\$275,824							
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.26%	189.65%	201.07%							
Plan fiduciary net position as a percentage of the total pension liability	56.99%	59.92%	56.39%							

* The amounts represented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
 REQUIRED SUPPLEMENTARY INFORMATION - PROPRIETARY FUND
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 SOUTH CAROLINA RETIREMENT SYSTEM
 LAST 10 FISCAL YEARS

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contributions	\$ 33,426	\$ 30,824	\$ 29,770	\$ 29,237	\$ 25,413	\$ 24,513	\$ 24,110	\$ 23,023	\$ 22,470	N/A
Contributions in relation to the contractually required contribution	\$ 33,426	\$ 30,824	\$ 29,770	\$ 29,237	\$ 25,413	\$ 24,513	\$ 24,110	\$ 23,023	\$ 22,470	
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

District's covered-employee payroll \$ 302,224 \$ 282,784 \$ 280,692 \$ 275,824 \$ 266,527 \$ 261,058 \$ 256,765 \$ 245,189 \$ 243,978

Contributions as a percentage of covered-employee payroll 11.06% 10.90% 10.61% 10.60% 9.53% 9.39% 9.39% 9.39% 9.21%

Other Supplementary Information

**SPARTANBURG METROPOLITAN SUB-DISTRICT B WATER AND SEWER WORKS
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION-
ACTUAL COMPARED TO FINAL BUDGETARY BASIS-PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	ACTUAL	ADJUSTMENT TO BUDGETARY BASIS	ACTUAL ON BUDGETARY BASIS	FINAL BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
OPERATING REVENUES					
Water & sewer service	\$ 913,932	\$ -	\$ 913,932	\$ 828,800	\$ 85,132
Meter, tap & application fees	4,025	-	4,025	5,500	(1,475)
Total Operating Revenues	<u>917,957</u>	<u>-</u>	<u>917,957</u>	<u>834,300</u>	<u>83,657</u>
OPERATING EXPENSES					
Purchases of water	316,766	-	316,766	325,600	8,834
Salaries & wages	316,264	-	316,264	298,378	(17,886)
Water & sewer line maintenance	87,025	-	87,025	43,200	(43,825)
Commissioners' fees	7,200	-	7,200	7,200	-
Utilities	22,166	-	22,166	23,000	834
Repairs & maintenance	20,112	-	20,112	13,500	(6,612)
Office supplies & postage	28,052	-	28,052	24,000	(4,052)
Insurance	219,920	-	219,920	185,000	(34,920)
Professional fees	21,850	-	21,850	24,500	2,650
Retirement plan	38,228	-	38,228	33,000	(5,228)
Taxes & licenses	28,782	-	28,782	22,830	(5,952)
Telephone	17,995	-	17,995	15,000	(2,995)
Vehicles	15,613	-	15,613	22,000	6,387
Laundry & uniforms	2,576	-	2,576	3,000	424
Depreciation	264,131	(264,131)	-	-	-
Miscellaneous	19,080	-	19,080	19,000	(80)
Total Operating Expenses	<u>1,425,760</u>	<u>(264,131)</u>	<u>1,161,629</u>	<u>1,059,208</u>	<u>(102,421)</u>
OPERATING INCOME (LOSS)	<u>(507,803)</u>	<u>264,131</u>	<u>(243,672)</u>	<u>(224,908)</u>	<u>(18,764)</u>
NONOPERATING REVENUES (EXPENSES)					
Tower rental	25,222	-	25,222	24,500	722
Interest revenue	2,687	-	2,687	5,000	(2,313)
Capital asset additions	-	(77,025)	(77,025)	(188,047)	111,022
Miscellaneous revenue	3,459	-	3,459	-	3,459
Total Nonoperating Revenues (Expenses)	<u>31,368</u>	<u>(77,025)</u>	<u>(45,657)</u>	<u>(158,547)</u>	<u>112,890</u>
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES	<u>(476,435)</u>	<u>187,106</u>	<u>(289,329)</u>	<u>(383,455)</u>	<u>94,126</u>
OTHER FINANCING SOURCES					
Operating transfers in	424,549	-	424,549	383,455	41,094
Total Other Financing Sources	<u>424,549</u>	<u>-</u>	<u>424,549</u>	<u>383,455</u>	<u>41,094</u>
CHANGE IN NET POSITION	<u>\$ (51,886)</u>	<u>\$ 187,106</u>	<u>\$ 135,220</u>	<u>\$ -</u>	<u>\$ 135,220</u>

Note: The District does not budget depreciation expense and includes Capital asset additions in their budgeted expenses.

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

Board of Commissioners
Spartanburg Metropolitan Sub-District B Water
and Sewer Works
Spartanburg, 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, the business type activities, each major fund, and the aggregate remaining fund information of Spartanburg Metropolitan Sub-District B Water and Sewer Works ("the District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 6, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Spartanburg Metropolitan Sub-District B Water and Sewer Works' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 the 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.

September 6, 2016

Edwards & Hedrick, CPAs, P.A.
Edwards & Hedrick, CPAs, P.A.
Greer, South Carolina