

**Metropolitan Sewer Subdistrict
of Greenville County**

Report on Financial Statements

For the year ended June 30, 2016

Metropolitan Sewer Subdistrict of Greenville County

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Independent Auditor's Report

The Board of Commissioners
Metropolitan Sewer Subdistrict of Greenville County
Greenville, South Carolina

Report on the Financial Statements

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, 2016, 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.

Opinion

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 the Metropolitan Sewer Subdistrict of Greenville County, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund and capital projects fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, 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 41 through 44, respectively, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016, 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.



Greenville, South Carolina
December 30, 2016

Metropolitan Sewer Subdistrict of Greenville County

Management's Discussion and Analysis

June 30, 2016

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, 2016.

Financial Highlights

- Metro increased its net position by \$6,361,000 or 3.4%.
- Total revenue increased by \$1,526,000 or 13.9% and total expenses decreased by approximately \$31,000 or 0.5%.
- Grant revenue decreased by \$102,000 or 29.8% due to the near completion of the Piedmont Sanitary Sewer Rehabilitation Project ("Piedmont").
- Capital contributions increased by \$1,253,000 or 57.7%.

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, 2016

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 \$193,714,000 at the close of the most recent fiscal year. This amount represents an increase in net position of \$6,361,000 from \$187,353,000 in FY 2015. The largest portion of Metro's net position (90%) reflects its investment in capital assets (e.g. infrastructure, buildings, machinery, and equipment). Metro has no outstanding debt. The remaining portion (10%) 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, 2016

Financial Analysis, Continued

Net position, continued:

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

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Dollar change</u>	<u>Percent change</u>
Current and other assets	\$ 23,616	\$ 21,243	\$ 2,373	11.2%
Capital assets	<u>174,668</u>	<u>170,564</u>	<u>4,104</u>	<u>2.4%</u>
Total assets	<u>198,284</u>	<u>191,807</u>	<u>6,477</u>	<u>3.4%</u>
Deferred outflows of resources	<u>578</u>	<u>327</u>	<u>251</u>	<u>76.8%</u>
Long-term liabilities	4,510	3,866	644	16.7%
Other liabilities	<u>630</u>	<u>618</u>	<u>12</u>	<u>1.9%</u>
Total liabilities	<u>5,140</u>	<u>4,484</u>	<u>656</u>	<u>14.6%</u>
Deferred inflows of resources	<u>8</u>	<u>298</u>	<u>(290)</u>	<u>(97.3%)</u>
Net investment in capital assets	174,668	170,564	4,104	2.4%
Restricted	30	30	-	-
Unrestricted	<u>19,016</u>	<u>16,759</u>	<u>2,257</u>	<u>13.5%</u>
Total net position	<u>\$ 193,714</u>	<u>\$ 187,353</u>	<u>\$ 6,361</u>	<u>\$ 3.4%</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 increased by \$1,526,000, or 13.9%, to \$12,505,000 in FY 2016 from \$10,979,000 in FY 2015 and expenses decreased by \$31,000, or 0.5%, to \$6,145,000 in FY 2016 from \$6,176,000 in FY 2015.

The increase in revenue is attributed to property taxes and sewer fees resulting from steady commercial and residential growth in Greenville County. Investment income increased due to rising interest rates. The increase in property tax revenue was offset by a slight decrease in grant funding due to the near completion of the Piedmont Project.

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, increased \$1,253,000 or 57.7% in FY 2016 over FY 2015. The increase in capital contributions indicates an increase in growth in Greenville County in FY 2016 over recent years.

Operating expenses decreased slightly in FY 2016 primarily due to the delay of several rehabilitation projects in FY 2016 in which those projects will carry over into FY 2017. The decrease was offset by an increase in maintenance projects due to the completion of projects carried over from FY 2015.

Metropolitan Sewer Subdistrict of Greenville County

Management's Discussion and Analysis

June 30, 2016

Financial Analysis, Continued

Changes in net position, continued:

Table 2
Statements of Activities
(000's)

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Dollar change</u>	<u>Percent change</u>
Program revenues				
Sewer fees	\$ 2,982	\$ 2,907	\$ 75	2.6%
Tap fees	719	669	50	7.5%
Grants	240	342	(102)	(29.8%)
Capital contributions	3,426	2,173	1,253	57.7%
General revenues				
Property taxes	5,102	4,902	200	4.1%
Interest income	19	18	1	5.6%
Other	17	(32)	49	(153.1%)
Total revenue	<u>12,505</u>	<u>10,979</u>	<u>1,526</u>	<u>13.9%</u>
Depreciation expense	442	438	4	0.9%
Operating expenses	<u>5,703</u>	<u>5,738</u>	<u>(35)</u>	<u>(0.6%)</u>
Total expenses	<u>6,145</u>	<u>6,176</u>	<u>(31)</u>	<u>(0.5%)</u>
Increase (decrease) in net position	<u>6,360</u>	<u>4,803</u>	<u>1,557</u>	<u>32.4%</u>
Net position, beginning	187,353	186,029	1,324	0.7%
Change in accounting principle	<u>-</u>	<u>(3,479)</u>	<u>3,479</u>	<u>(100.0%)</u>
Net position, beginning, restated	<u>187,353</u>	<u>182,550</u>	<u>4,803</u>	<u>2.6%</u>
Net position, ending	<u>\$ 193,714</u>	<u>\$ 187,353</u>	<u>\$ 6,360</u>	<u>3.4%</u>

Metropolitan Sewer Subdistrict of Greenville County

Management's Discussion and Analysis

June 30, 2016

Financial Analysis, Continued

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 Comptroller draft a preliminary budget using these documents. After the preliminary budget is reviewed, a Notice of Public Hearing is published in the local newspapers. During the public hearing the Commission receives comments from the community. The General Manager reviews and/or changes the preliminary budget and then submits the final preliminary budget 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 in FY 2016. It is the policy of the Commission to compare actual monthly expenses to budgeted monthly expenses and to approve monthly disbursements.

Table 3
Fiscal Year 2016 General Fund Budget
vs. Actual

	<u>FY 2016</u> <u>budgeted</u>	<u>FY 2016</u> <u>actual</u>	<u>Variance</u>
Revenues			
Property taxes	\$ 4,433,435	\$ 5,102,136	\$ 668,701
Sewer fees	2,925,000	2,981,650	56,650
Interest income	12,000	19,192	7,192
Tap fees and other	<u>525,000</u>	<u>719,244</u>	<u>194,244</u>
Total revenues	<u>7,895,435</u>	<u>8,822,222</u>	<u>926,787</u>
Expenditures			
Salaries, wages, and benefits	3,355,000	2,977,788	377,212
Operations and maintenance	3,894,520	2,429,244	1,465,276
Professional fees and outside services	<u>200,000</u>	<u>95,715</u>	<u>104,285</u>
Total expenditures	<u>7,449,520</u>	<u>5,502,747</u>	<u>1,946,773</u>
Excess of revenues over expenditures	<u>445,915</u>	<u>3,319,475</u>	<u>2,873,560</u>
Other financing sources and uses			
Transfers out	(2,097,500)	(568,245)	1,529,255
Proceeds from disposal of capital assets	<u>-</u>	<u>17,075</u>	<u>17,075</u>
Total other financing sources and uses	<u>(2,097,500)</u>	<u>(551,170)</u>	<u>1,546,330</u>
Net change in fund balances	<u>\$ (1,651,585)</u>	<u>\$ 2,768,305</u>	<u>\$ 4,419,890</u>

As shown in Table 3, Metro's total revenues were \$926,787 above projections. Management uses information provided by Greenville County and Anderson County to estimate projected property taxes and sewer fees. Tap fees and other revenue increased due to the unexpected number of sewer connection permits to the Metro sanitary sewer system in FY 2016.

Metropolitan Sewer Subdistrict of Greenville County

Management's Discussion and Analysis

June 30, 2016

Financial Analysis, Continued

Budgetary highlights, continued:

Metro's total expenditures were below budget by \$1,946,773 primarily due to less than budgeted expenses in salary, wages and benefits and operations and maintenance. Vacant positions in FY 2016 resulted in a decrease in salary, wages, and benefits. Operations and maintenance decreased mainly due to rehabilitation projects still in process at year end and other projects coming in under budget.

Capital Assets and Debt Administration

Capital assets:

As of June 30, 2016, Metro's investment in capital assets amounted to \$175 million (net of accumulated depreciation) including sewer lines, land, buildings, equipment, and vehicles as shown in Table 4.

Table 4
Capital Assets

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Increase (decrease) over 2015</u>	<u>Percentage increase (decrease)</u>
Vehicles	\$ 1,873,895	\$ 1,796,321	\$ 77,574	4.3%
Office equipment	72,094	72,094	-	-
Computer equipment	167,771	157,914	9,857	6.2%
Software	124,558	120,658	3,900	3.2%
Maintenance equipment	939,497	864,689	74,808	8.7%
Pump station equipment	246,729	246,729	-	-
Administrative building	801,038	758,144	42,894	5.7%
Training facility	1,269,100	1,269,100	-	-
O&M building	25,474	25,474	-	-
Shop equipment	15,714	15,714	-	-
Maintenance shop buildings	302,970	302,970	-	-
Safety equipment	22,200	22,200	-	-
Sewer lines and easements	<u>171,780,794</u>	<u>167,564,712</u>	<u>4,216,082</u>	<u>2.5%</u>
Sub-total	177,641,834	173,216,719	4,425,115	2.6%
Less accumulated depreciation	<u>2,974,137</u>	<u>2,652,818</u>	<u>321,319</u>	<u>12.1%</u>
Net capital assets	<u>\$ 174,667,697</u>	<u>\$ 170,563,901</u>	<u>\$ 4,103,796</u>	<u>2.4%</u>

Metropolitan Sewer Subdistrict of Greenville County

Management's Discussion and Analysis

June 30, 2016

Capital Assets and Debt Administration, Continued

Capital assets, continued:

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 the following:

- Piedmont Project additions of approximately \$789,000 which were funded by the following:
 - A grant provided by South Carolina Department of Health and Environmental Control ("SCDHEC") Clean Water State Revolving Fund ("CWSRF") of approximately \$451,000.
 - A grant provided by Greenville County Redevelopment Authority of approximately \$100,000.
 - Approximately \$238,000 by Metro.
- Developer installed sewer lines providing service to new commercial sites and residential subdivisions that were contributed to Metro of approximately \$3,426,000.

During 2011, Metro was awarded approximately \$7.9 million from the Fiscal Year 2010 Federal Appropriations Act (Public Law 111-88) for the Piedmont Project. As of June 30, 2016, Metro had expended approximately \$7.3 million of the funds for the project.

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.

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 5.2% at June 30, 2016.
- The number of residential building permits issued in Greenville County was 6,894 during the year ended June 30, 2016.
- The number of commercial and other plumbing permits issued in Greenville County was 2,744 during the year ended June 30, 2016.
- 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, 2016

Capital Assets and Debt Administration, Continued

Debt administration, continued:

Economic Factors and Next Year's Budgets and Rates, Continued

Table 5
Fiscal Year 2017 Condensed General and Capital Projects Funds Operating Budget

Revenues	
Property taxes	\$ 4,552,450
Sewer fees	2,878,500
Investment income	12,000
Tap fees and other	681,000
Metro reserves	<u>2,730,150</u>
Total revenues	<u>\$ 10,854,100</u>
Expenditures	
Sewer lines	\$ 1,365,000
Other capital assets	566,800
Salaries, wages, and benefits	3,641,100
Operations and maintenance	4,996,200
Professional fees and outside services	<u>285,000</u>
Total expenditures	<u>\$ 10,854,100</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 in FY 2017 will remain about the same as revenues received FY 2016 due to steady commercial and residential growth.

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

As of June 30, 2016

Assets

Cash and cash equivalents	\$ 19,491,108
Investments	3,965,489
Receivables	
Property taxes, net	152,413
Interest	6,862
Capital assets not being depreciated	171,780,794
Capital assets, net of accumulated depreciation	2,886,903
Total assets	<u>198,283,569</u>

Deferred outflows of resources

Deferred outflows on net pension liability	<u>577,702</u>
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Liabilities

Accounts payable and accrued expenses	534,047
Noncurrent liabilities	
Due within one year:	
Compensated absences	96,059
Due in more than one year:	
Compensated absences	47,214
Other post-employment benefits liability	241,695
Net pension liability	4,221,147
Total liabilities	<u>5,140,162</u>

Deferred inflows of resources

Deferred inflows on net pension liability	<u>7,549</u>
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Net position

Net investment in capital assets	174,667,697
Restricted for capital activity	30,310
Unrestricted	19,015,553
Total net position	<u><u>\$ 193,713,560</u></u>

See Notes to Financial Statements

Metropolitan Sewer Subdistrict of Greenville County

Statement of Activities

For the year ended June 30, 2016

	<u>Expenses</u>	<u>Program revenues</u>		<u>Net revenue and change in net position of primary government</u>
		<u>Charges for services</u>	<u>Capital grants and contributions</u>	<u>Total</u>
Primary Government				
Governmental activities				
General government	\$ 6,144,804	\$ 3,700,894	\$ 3,666,653	\$ 1,222,743
Total governmental activities	<u>\$ 6,144,804</u>	<u>\$ 3,700,894</u>	<u>\$ 3,666,653</u>	<u>1,222,743</u>
General Revenues				
Property taxes				5,101,598
Interest income				19,192
Gain on disposal of capital assets				17,075
Total general revenues				<u>5,137,865</u>
Change in net position				6,360,608
Net position, beginning of year				187,352,952
Net position, end of year				<u>\$ 193,713,560</u>

See Notes to Financial Statements

Metropolitan Sewer Subdistrict of Greenville County

Balance Sheet - Governmental Funds

As of June 30, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets			
Assets			
Cash and cash equivalents			
Financial institutions	\$ 19,490,548	\$ -	\$ 19,490,548
Greenville County Treasurer	560	-	560
Investments	3,965,489	-	3,965,489
Receivables			
Interest	6,862	-	6,862
Property taxes and sewer fees, net	152,413	-	152,413
Total assets	<u>\$ 23,615,872</u>	<u>\$ -</u>	<u>\$ 23,615,872</u>
Liabilities, Deferred Inflows, and Fund Balances			
Liabilities			
Accounts payable and accrued expenses	\$ 534,047	\$ -	\$ 534,047
Total liabilities	<u>534,047</u>	<u>-</u>	<u>534,047</u>
Deferred Inflows of Resources			
Unavailable revenue-property taxes	33,033	-	33,033
Total deferred inflows of resources	<u>33,033</u>	<u>-</u>	<u>33,033</u>
Fund balances			
Restricted for future capital expenditures	30,310	-	30,310
Assigned for subsequent year's expenditures	2,730,150	-	2,730,150
Unassigned	20,288,332	-	20,288,332
Total fund balances	<u>23,048,792</u>	<u>-</u>	<u>23,048,792</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 23,615,872</u>	<u>\$ -</u>	<u>\$ 23,615,872</u>

See Notes to Financial Statements

Metropolitan Sewer Subdistrict of Greenville County

Reconciliation of Total Fund Balances of Governmental Funds to Net Position of Governmental Activities As of June 30, 2016

Total fund balances - governmental funds	\$ 23,048,792
<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	33,033
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	577,702
Deferred inflows of resources related to pensions	(7,549)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated absences	(143,273)
OPEB	(241,695)
Net pension liability	(4,221,147)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$2,974,137	174,667,697
Net position - governmental activities	<u><u>\$ 193,713,560</u></u>

See Notes to Financial Statements

Metropolitan Sewer Subdistrict of Greenville County

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds For the year ended June 30, 2016

	General	Capital Projects	Total Governmental Funds
Revenues			
Property taxes	\$ 5,102,136	\$ -	\$ 5,102,136
Sewer fees	2,981,650	-	2,981,650
Interest income	19,192	-	19,192
Grant revenue	-	551,475	551,475
Tap fees and other	719,244	-	719,244
Total revenues	<u>8,822,222</u>	<u>551,475</u>	<u>9,373,697</u>
Expenditures			
Salaries, wages, and benefits	2,977,788	-	2,977,788
Operations and maintenance	2,429,244	-	2,429,244
Professional fees and outside services	95,715	-	95,715
Capital outlay	-	1,119,720	1,119,720
Total expenditures	<u>5,502,747</u>	<u>1,119,720</u>	<u>6,622,467</u>
Excess of revenues over (under) expenditures	<u>3,319,475</u>	<u>(568,245)</u>	<u>2,751,230</u>
Other financing sources (uses)			
Transfers in (out)	(568,245)	568,245	-
Proceeds from disposal of capital assets	17,075	-	17,075
Total other financing sources (uses)	<u>(551,170)</u>	<u>568,245</u>	<u>17,075</u>
Net change in fund balances	2,768,305	-	2,768,305
Fund balances, beginning of year	20,280,487	-	20,280,487
Fund balances, end of year	<u>\$ 23,048,792</u>	<u>\$ -</u>	<u>\$ 23,048,792</u>

See Notes to 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
For the year ended June 30, 2016

Net changes in fund balances - governmental funds		\$ 2,768,305
Amounts reported for governmental activities in the statement of activities are different 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	\$ 1,119,721	
Current year depreciation	<u>(442,273)</u>	
		677,448
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		(538)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated absences	(6,762)	
District's portion of collective pension expense	(151,854)	
OPEB costs	<u>(41,169)</u>	
		(199,785)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		
Grants receivable	(311,170)	
Contribution of sewer lines	<u>3,426,348</u>	
		3,115,178
Change in net position of governmental activities		<u>\$ 6,360,608</u>

See Notes to Financial Statements

Metropolitan Sewer Subdistrict of Greenville County

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds - Budgetary Comparison

For the year ended June 30, 2016

	GOVERNMENTAL FUNDS					
	General			Capital Projects		
	Original and final budget	Actual	Variance favorable (unfavorable)	Original and final budget	Actual	Variance favorable (unfavorable)
Revenues						
Property taxes	\$ 4,433,435	\$ 5,102,136	\$ 668,701	\$ -	\$ -	\$ -
Sewer fees	2,925,000	2,981,650	56,650	-	-	-
Interest income	12,000	19,192	7,192	-	-	-
Grant revenue	-	-	-	526,000	551,475	25,475
Tap fees and other	525,000	719,244	194,244	-	-	-
Total revenues	<u>7,895,435</u>	<u>8,822,222</u>	<u>926,787</u>	<u>526,000</u>	<u>551,475</u>	<u>25,475</u>
Expenditures						
Salaries, wages, and benefits	3,355,000	2,977,788	377,212	-	-	-
Operations and maintenance	3,894,520	2,429,244	1,465,276	-	-	-
Professional fees and outside services	200,000	95,715	104,285	-	-	-
Capital outlay	-	-	-	2,623,500	1,119,720	1,503,780
Total expenditures	<u>7,449,520</u>	<u>5,502,747</u>	<u>1,946,773</u>	<u>2,623,500</u>	<u>1,119,720</u>	<u>1,503,780</u>
Excess of revenues over (under) expenditures	<u>445,915</u>	<u>3,319,475</u>	<u>2,873,560</u>	<u>(2,097,500)</u>	<u>(568,245)</u>	<u>1,529,255</u>
Other financing sources (uses)						
Transfers in (out)	(2,097,500)	(568,245)	1,529,255	2,097,500	568,245	(1,529,255)
Proceeds from disposal of capital assets	-	17,075	17,075	-	-	-
Total other financing sources (uses)	<u>(2,097,500)</u>	<u>(551,170)</u>	<u>1,546,330</u>	<u>2,097,500</u>	<u>568,245</u>	<u>(1,529,255)</u>
Net change in fund balances	<u>\$ (1,651,585)</u>	<u>2,768,305</u>	<u>\$ 4,419,890</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balances, beginning of year		20,280,487			-	
Fund balances, end of year		<u>\$ 23,048,792</u>			<u>\$ -</u>	

See Notes to Financial Statements

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 1. Summary of Significant Accounting Policies and Activities

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 service 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.

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.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Fund accounting:

The accounts of Metro are organized on the basis of funds, each of 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.

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.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Measurement focus and basis of accounting, continued:

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.

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.

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).

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 of Metro or (b) an official (a director) to which the assigned amounts are to be used for specific purposes. The amount assigned to subsequent year's 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.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Fund balance, continued:

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.

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 component 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. Dividend income is recognized on the ex-dividend date. Other investment income is recognized when earned. Investments are reported at fair value. 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.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Capital assets:

Capital assets, which include property, plant, equipment, and 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 at 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.

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.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 1. Summary of Significant Accounting Policies and Activities, Continued

Compensated absences:

The annual 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 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 a 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 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.

Interfund transactions:

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

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 1. Summary of Significant Accounting Policies and Activities, Continued

New accounting standards:

The GASB has issued the following statements:

Statement No. 72, "Fair Value Measurement and Application". The requirements of this Statement are effective for the current fiscal year.

Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68." The requirements of this Statement are effective for the current fiscal year – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2017.

Note 2. Cash, Cash Equivalents and Investments

As of June 30, 2016, Metro had the following cash, cash equivalents and investments:

Cash and cash equivalents	
Checking and other cash	\$ 19,491,108
Total cash and cash equivalents	<u>\$ 19,491,108</u>
Investments	
Money market account (Escrow Thornblade)	\$ 30,310
Certificates of Deposit	3,000,000
SC Local Government Investment Pool	<u>935,179</u>
Total investments	<u>\$ 3,965,489</u>

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 South Carolina Local Government Investment Pool (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.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

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, 2016, the underlying security ratings of Metro's investment in the South Carolina Local Government Investment 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.

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 76.65 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, 2016, the carrying amount of Metro's deposits totaled \$19,521,268 and the bank balance was \$19,556,587. All of Metro's deposits held at June 30, 2016 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.

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, 2016:

- SC Local Government Investment Pool funds of \$935,179 are measured at the Net Asset Value (NAV).

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 2. Cash, Cash Equivalents and Investments, Continued

Fair value of investments, continued:

The South Carolina Local Government Investment Pool ("SC Local Government Investment 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 upon 24 hours' notice. 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 2016 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, 2016. Current and delinquent property taxes are summarized as follows:

	<u>Anderson County</u>	<u>Greenville County</u>	<u>Total</u>
Tax collected:			
Current	\$ 12,134	\$ 4,610,379	\$ 4,622,513
Delinquent	3,749	208,907	212,656
State inventory tax	-	37,894	37,894
Motor carrier tax	53	95,643	95,696
Sewer fee	<u>20,368</u>	<u>2,951,395</u>	<u>2,971,763</u>
	36,304	7,904,218	7,940,522
Receivable at June 30, 2015	928	179,256	180,184
Less change in unavailable property taxes from June 30, 2015	-	(538)	(538)
Less amounts received through June 30, 2016	<u>(36,019)</u>	<u>(7,931,736)</u>	<u>(7,967,755)</u>
Receivable at June 30, 2016	<u>\$ 1,213</u>	<u>\$ 151,200</u>	<u>\$ 152,413</u>

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 3. Property Taxes Receivable, Continued

Metro has recorded uncollected, delinquent property taxes at June 30, 2016 of \$177,767. Allowances for the estimated uncollectible portion are \$33,962. Estimated property taxes of \$110,772 have been recognized as revenue at June 30, 2016 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 \$33,033 has been recorded by Metro as unavailable revenue at June 30, 2016 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, \$8,607 of sewer fees is included in the receivable at year-end.

Note 4. Capital Assets

Primary government capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Balance June 30, 2015</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>Balance June 30, 2016</u>
Governmental Activities				
Capital assets not being depreciated				
Infrastructure	\$ 167,001,501	\$ 4,216,082	\$ -	\$ 171,217,583
Easements	<u>563,211</u>	<u>-</u>	<u>-</u>	<u>563,211</u>
Total capital assets at historical cost not being depreciated	<u>167,564,712</u>	<u>4,216,082</u>	<u>-</u>	<u>171,780,794</u>
Capital assets being depreciated				
Building and improvements	2,355,688	42,894	-	2,398,582
Vehicles	1,796,321	77,574	-	1,873,895
Furniture, fixtures and equipment	1,221,426	195,762	(120,954)	1,296,234
Computer equipment	157,914	9,857	-	167,771
Software	<u>120,658</u>	<u>3,900</u>	<u>-</u>	<u>124,558</u>
Total capital assets at historical cost being depreciated	<u>5,652,007</u>	<u>329,987</u>	<u>(120,954)</u>	<u>5,861,040</u>
Less: accumulated depreciation				
Buildings and improvements	(484,909)	(76,385)	-	(561,294)
Vehicles	(1,100,231)	(241,312)	-	(1,341,543)
Furniture, fixtures and equipment	(868,907)	(102,679)	120,954	(850,632)
Computer equipment	(84,000)	(20,478)	-	(104,478)
Software	<u>(114,771)</u>	<u>(1,419)</u>	<u>-</u>	<u>(116,190)</u>
Total accumulated depreciation	<u>(2,652,818)</u>	<u>(442,273)</u>	<u>120,954</u>	<u>(2,974,137)</u>
Total capital assets being depreciated, net	<u>2,999,189</u>	<u>(112,286)</u>	<u>-</u>	<u>2,886,903</u>
Governmental activities capital assets, net	<u>\$ 170,563,901</u>	<u>\$ 4,103,796</u>	<u>\$ -</u>	<u>\$ 174,667,697</u>

Depreciation expense for the year ended June 30, 2016 totaled \$442,273.

Governmental activities donated assets for fiscal year 2016 consisted of infrastructure additions of \$3,426,348.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 5. Long-Term Liabilities

Long term liabilities consist of the following at June 30, 2016.

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>
Compensated absences	\$ 136,511	\$ 158,684	\$ 151,922	\$ 143,273
Other postemployment benefits liability	<u>200,526</u>	<u>43,068</u>	<u>1,899</u>	<u>241,695</u>
Total	<u>\$ 337,037</u>	<u>\$ 201,752</u>	<u>\$ 153,821</u>	<u>\$ 384,968</u>

At June 30, 2016, \$96,059 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 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 South Carolina Retirement Systems (Systems) and serves as a 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, 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.

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.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 6. Pension Plans, Continued

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 years earned service requirement, respectively.

The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation ("AFC") multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. 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.

The 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.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

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 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 rates¹ are as follows:

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

- Required employer contribution rates¹ are as follows:

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

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

Contributions to the SCRS pension plan from Metro were \$231,543 and \$227,464 for the year ended June 30, 2016 and 2015 respectively. Metro does not participate in the ORP or PORS pension plans.

Net pension liability:

At June 30, 2016, Metro reported a liability of \$4,221,147 for its proportionate share of the SCRS net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension 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, 2015, Metro's proportionate share of the SCRS plan was 0.02226% as compared to 0.02050% as of June 30, 2014.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 6. Pension Plans, Continued

Pension expense:

For the years ended June 30, 2016 and 2015, Metro recognized pension expense for the SCRS plan of \$383,397 and \$247,348.

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:

	<u>June 30, 2016</u>	
	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 74,995	\$ 7,549
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	28,254	-
Changes in proportion and differences between Metro contributions and proportionate share of contributions	242,910	-
Metro contributions subsequent to the measurement date ¹	<u>231,543</u>	<u>-</u>
Total	<u>\$ 577,702</u>	<u>\$ 7,549</u>

¹Amounts 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.

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:

2017	\$ (94,845)
2018	(94,845)
2019	(69,085)
2020	<u>(79,835)</u>
	<u>\$ (338,610)</u>

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

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. 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 June 30, 2015, total pension liability, net pension liability and sensitivity information were determined by our consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2014, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2015, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

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

	SCRS
Actuarial cost method	Entry age
Investment rate of return ¹	7.5%
Projected salary increases	3.5% to 12.5% (varies by service) ¹
Benefit adjustments	lesser of 1% or \$500 annually
¹ Includes inflation at 2.75%	

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

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, 2014, valuations for SCRS are as follows.

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%

Long-term expected rate of return:

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014, actuarial valuations was based upon the 30 year capital market outlook at the end of the third quarter 2013, as developed by the Retirement Systems Investment Commission in collaboration with its investment consultant, Aon Hewitt. The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation as adopted by the Investment Commission for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return set in statute and 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.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 6. Pension Plans, Continued

Long-term expected rate of return, continued:

	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%
Mixed Credit	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 Alternatives	10.0%	4.90%	0.49%
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 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.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

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 7.50 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 (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
System	1.00% Decrease (6.50%)	Discount Rate (7.50%)	1.00% Increase (8.50%)
SCRS	\$ 5,321,661	\$ 4,221,147	\$ 3,298,777

Pension plan fiduciary net position:

The net pension liability (NPL) 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. NPL totals, as of June 30, 2016 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	\$ 44,097,310,230	\$ 25,131,828,101	\$ 18,965,482,129	57.0%

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, 2015 (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, 2015. This information can be accessed via the contact information provided above.

Note 7. Employee Benefits

Metro offers medical insurance through Greenville County. Metro pays the entire cost of the employee portion of medical coverage, and will pay a portion of dependent coverage if elected by the employee. Medical insurance expense totaled \$415,823 for the year ended June 30, 2016.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 7. Employee Benefits, Continued

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 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

Metro administers a single-employer defined benefit healthcare plan (the "Retiree Health Plan"). The plan provides post-retirement health and dental care 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 and dental care coverage for these eligible retired plan members and their spouses in the amount of \$75, with the retiree plan members paying the remainder of the premiums. As of year-end, there were three retirees and one spouse that were receiving coverage benefits. For the fiscal year 2016, Metro contributed \$1,899 to the plan. Retiree plan members contributed \$6,516 of their premium costs.

Metro's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the annual required contribution of the employer ("ARC"). Metro has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of Metro's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in Metro's net OPEB obligation to the Retiree Health Plan:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 42,965	\$ 45,706	\$ 37,545
Interest on net OPEB obligation	103	110	38
Adjustment to annual required contribution	-	-	-
Annual OPEB cost (expense)	43,068	45,816	37,583
Contributions made	<u>(1,899)</u>	<u>(2,664)</u>	<u>(3,084)</u>
Increase in net OPEB obligation	41,169	43,152	34,499
Net OPEB obligation, beginning of year	<u>200,526</u>	<u>157,374</u>	<u>122,875</u>
Net OPEB obligation, end of year	<u>\$ 241,695</u>	<u>\$ 200,526</u>	<u>\$ 157,374</u>
Percentage of current OPEB cost contributed	4.4%	5.8%	8.2%

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 8. Postemployment Benefits Other Than Pensions, Continued

As of June 30, 2016, the actuarial accrued liability for benefits was \$298,617 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,093,521, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 14.3 percent. Metro budgets and pays the annual premiums for these benefits on a pay-as-you-go basis.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The following simplifying assumptions were made:

Retirement age for active employees: Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 65, or at the first subsequent year in which the member would qualify for benefits.

Mortality: Life expectancies were based on mortality tables from the South Carolina Legislature – SC Code of Laws Title 19 Chapter 1 General Provisions.

Turnover: Non-group-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate: The expected benefit is a fixed benefit and is not expected to increase. Therefore no expected rate of increase was assumed in the healthcare insurance premiums.

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

Note 8. Postemployment Benefits Other Than Pensions, Continued

Health insurance premiums: The 2016 health insurance premiums were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate: The expected long-term inflation assumption of 3.0 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2014 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate: The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of Metro's short-term investment portfolio, a discount rate of .24 percent was used. In addition, a simplified version of the unit credit cost method was used. The unfunded actuarial accrued liability is being amortized on a level dollar basis over a 30 year open amortization period.

Note 9. Construction Contracts in Progress

At June 30, 2016, Metro had commitments for various capital and rehabilitation projects. The following summarizes the capital and rehabilitation contracts in progress at June 30, 2016 on which significant additional work is to be performed:

<u>Number</u>	<u>Project Name</u>	<u>Contract amount</u>	<u>Total contract incurred through June 30, 2016</u>	<u>Balance to be performed</u>
<u>Construction Phase:</u>				
09-0800	Piedmont Sanitary Sewer Rehab	\$ 6,338,671	\$ 5,555,372	\$ 783,299
13-0100	North Greenville Hospital	623,815	-	623,815
14-0002	Piedmont Sewer System Rehab Ph2 Div I	921,778	904,461	17,317
15-4001	Sugar Creek Villas Point Repair	631,480	515,719	115,761
15-5002	I-85 I-385 Interchange Sewer	570,958	105,218	465,740
16-4002	Belmont-Augusta Point Repair Project	972,615	19,650	952,965
16-4004	Terra Pines Point Repair Project	97,000	-	97,000
16-4005	South Greenville Point Repair Project	89,000	-	89,000
		<u>\$ 10,245,317</u>	<u>\$ 7,100,420</u>	<u>\$ 3,144,897</u>
<u>Design Phase:</u>				
14-4002	Donaldson Center Relocations	\$ 44,640	\$ 37,720	\$ 6,920
16-4004	Terra Pines Point Repair Project	33,600	-	33,600
16-4005	South Greenville Point Repair Project	28,200	-	28,200
15-5002	I-85 I-385 Interchange Sewer	7,353	-	7,353
		<u>\$ 113,793</u>	<u>\$ 37,720</u>	<u>\$ 76,073</u>

Metropolitan Sewer Subdistrict of Greenville County

Notes to Financial Statements

June 30, 2016

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.

In 2010 the Piedmont Public Service District requested Metro expand its boundaries to include the Piedmont Sanitary Sewer System which is located in Greenville and Anderson Counties. Metro agreed by entering into a Memorandum of Understanding with the Piedmont Public Service District which provided that sufficient funds would be obtained through principal forgiveness funding for the rehabilitation of the existing Piedmont system. Upon securing the funding for the rehabilitation, Metro petitioned Anderson and Greenville County Councils to approve the annexation of the properties currently served by Piedmont Public Service District into Metro's district. In December 2010 Anderson County Council approved the annexation and in January 2011 Greenville County Council approved the annexation. As required by the funding, Metro received ownership of the existing Piedmont Sewer System in November 2011. Metro executed the funding agreement for \$7,959,609 in principle forgiveness from the South Carolina DHEC CWSRF in November 2011. As of June 30, 2016, Metro had expended approximately \$7,335,000 of the awarded amount.

On December 21, 2011, Metro and Greenville County Redevelopment Authority ("GCRA") executed a Memorandum of Understanding to fund the rehabilitation, replacement and relocation of sewer main, lateral lines and house reconnections for the Hammett Street Project in Piedmont. GCRA received \$350,000 in funding for the project from two sources; Department of Housing and Urban Development (HUD) through the Entitlement Community Development Block Grant Program ("CDBG") for \$175,000 and from Appalachian Regional Commission for \$175,000. As of June 30, 2016, Metro has expended approximately \$332,500 of the awarded amount.

Metro has secured partial funding for private property reconnections associated with the Piedmont Project through revising the scope of work within the Hammett Street Project to exhaust the remaining \$60,000 in that grant. An additional \$100,000 grant was secured through the GCRA's Action Plan CDBG Program. The project is estimated to cost \$1,200,000 and began January 2015. Metro has budgeted funds for the remaining cost not covered by the grant funding and no debt will have to be issued. As of June 30, 2016, Metro has expended approximately \$160,000 of the awarded amount.

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 South Carolina Budget and Control Board for all other forms of coverage.

The State Accident Fund and the South Carolina Budget and Control Board 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, 2016

Note 12. Subsequent Events

In preparing these financial statements, Metro has evaluated events and transactions for potential recognition or disclosure through December 30, 2016 the date the financial statements were available for issuance.

Metropolitan Sewer Subdistrict of Greenville County

Sewer Line Condition Assessment

For the year ended June 30, 2016

CONDITION ASSESSMENT OF INFRASTRUCTURE ASSETS

	Sewer condition rating	FY 2016		FY 2015		FY 2014	
		Linear feet	%	Linear feet	%	Linear feet	%
Good	6 - 8	3,162,843	95.0%	3,017,675	91.7%	2,922,850	88.8%
Acceptable	4 - 5	103,438	3.1%	209,551	6.4%	281,270	8.6%
Marginally Deficient	2 - 3	21,010	0.6%	21,010	0.6%	17,695	0.5%
Moderately Deficient	.5 - 1	42,414	1.3%	42,414	1.3%	69,754	2.1%
Total		<u>3,329,705</u>	<u>100.0%</u>	<u>3,290,650</u>	<u>100.0%</u>	<u>3,291,569</u>	<u>100.0%</u>

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

	<u>FY2016</u>	<u>FY2015</u>	<u>FY2014</u>	<u>FY2013</u>	<u>FY2012</u>	<u>FY2011</u>
Budgeted	\$ 2,421,000	\$ 2,387,000	\$ 2,045,600	\$ 2,704,500	\$ 2,528,000	\$ 2,268,000
Actual	\$ 1,620,812	\$ 1,604,731	\$ 1,261,946	\$ 2,261,820	\$ 2,045,821	\$ 982,606

The condition of Metro's sewer system is determined using its Sewer Collection System Maintenance Management Plan. The sewer condition rating is an assessment of the ability of individual components to function structurally and hydraulically, using the numerical scale assigned by the inspection priority matrix. It is Metro's policy to maintain its sewer system so that a condition rating of .5 to 1 is less than 5% of the system. Sewer pipeline assessments are revised annually to reflect any changes in condition of the system.

Metropolitan Sewer Subdistrict of Greenville County

Schedule of Funding Progress - Other Post-Employment Benefits

For the year ended June 30, 2016

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
6/30/2014	7/1/2013	\$ -	\$ 325,054	\$ 325,054	0.00%	\$ 1,860,914	17.47%
6/30/2015	7/1/2014	\$ -	\$ 336,282	\$ 336,282	0.00%	\$ 2,086,829	16.11%
6/30/2016	7/1/2015	\$ -	\$ 298,617	\$ 298,617	0.00%	\$ 2,093,521	14.26%

Metropolitan Sewer Subdistrict of Greenville County

Schedule of Proportionate Share of the Net Pension Liability

For the year ended June 30, 2016

	SCRS		
	2016	2015	2014
Metro's proportion of the net pension liability	0.02226%	0.02050%	0.02050%
Metro's proportionate share of the net pension liability	<u>\$ 4,221,147</u>	<u>\$ 3,529,076</u>	<u>\$ 3,676,610</u>
Metro's covered payroll during the measurement period	<u>\$ 2,086,829</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	202.27565%	189.64208%	212.24256%
Plan fiduciary net position as a percentage of the total pension liability	59.90%	59.90%	56.39%

Metropolitan Sewer Subdistrict of Greenville County

Schedule of Contributions

For the year ended June 30, 2016

	SCRS									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 231,543	\$ 227,464	\$ 197,257	\$ 183,620	N/A	N/A	N/A	N/A	N/A	N/A
Contributions in relation to the contractually required contribution	231,543	227,464	197,257	183,620	N/A	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	N/A	N/A	N/A	N/A	N/A	N/A
Metro's covered-employee payroll	\$ 2,093,521	\$ 2,086,829	\$ 1,860,914	\$ 1,732,268	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	11.05998%	10.89998%	10.60001%	10.59998%	N/A	N/A	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.



**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***

The 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 and each major fund of Metropolitan Sewer Subdistrict of Greenville County (“Metro”), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Metro’s basic financial statements, and have issued our report thereon dated December 30, 2016.

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.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive style with a large, sweeping initial 'E'.

Greenville, South Carolina
December 30, 2016