CHESTER SEWER DISTRICT

RICHBURG, SOUTH CAROLINA

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

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CHESTER SEWER DISTRICT

Richburg, South Carolina

A Special Purpose District

created by the

South Carolina Legislature in 1964

BOARD OF COMMISSIONERS

Mr. Anthony (Tony) Pope, Chairman

Mrs. Edena H. Sanders, Secretary

Mrs Gloria O Crank, Member

LOVE BAILEY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissionsers
Chester Sewer District
Chester, South Carolina

We have audited the accompanying financial statements of the enterprise fund of Chester Sewer District (the "District"), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2018, and the respective changes in its financial position and, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-15 and 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of X, State Y's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 16, 2018 on our consideration of the District'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 the District's internal control over financial reporting and compliance.

Love Bailey & Associates, LLC
Love Bailey & Associates, LLC
Laurens, South Carolina
October 16, 2018

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

This discussion and analysis of Chester Sewer District d/b/a Chester County Wastewater Recovery's (the "District") financial performance provides an overview of the District's financial activities for the years ended June 30, 2018 ("2018") and June 30, 2017 ("2017"). The purpose of the Management's discussion and analysis ("MD&A") is to introduce the basic financial statements and provide an analytical overview of the District's financial activities. The MD&A is the section of District's financial statements in which management provides an overview of the previous year's operations and how the District performed. The management also provides a preview of the upcoming year by outlining future goals and approaches to new projects.

The District is a special purpose district created by **Legislative Act No. 480 as amended by Act No. 1186 (and subsequent Amendments thereto) of the Acts of the State of South Carolina for 1964**. The District was created for the purpose of transporting, treating and disposing of wastewater originating within the District Service Area.

Wastewater treatment is an important service provided by the CWR to residents, businesses and industries in the Chester and Richburg areas. Without this service, industrial operations in the Chester County area would be greatly hindered. That is why CWR is a strong supporter and partner of the economic development efforts in the county.

The CWR's mission is to protect public health by providing efficient and reliable wastewater services to conserve resources, promote growth and development, and return clean water to the environment.

CWR owns and operates three (3) wastewater treatment plants (WWTP) with a combined capacity of approximately four million, nine hundred thirty-three thousand gallons (or 4.933 million). They are as follows: 1) Lando/Manetta WWTP - Designed Capacity of 1.2 MGD; 2) Rocky Creek WWTP- Designed Capacity of 1.6 MGD; 3) Sandy River WWTP - Designed Capacity of 2.136 MGD. In addition, CWR operates and maintains over 160 miles of collection lines and fourteen (14) pump stations.

CWR's governing body is a Board of Commissioners appointed by the Governor upon the recommendation of the local legislative delegation. These individuals are the policy makers for CWR.

The current Board Members are as follows:

- Mr. Anthony (Tony) Pope, Chairman
- Mrs. Edena H. Sanders, Secretary
- Mrs. Gloria O. Crank, Member

The following is a listing of the current managerial staff charged with implementing the policy:

- Phillip (Phil) A. Thompson-King, Executive Director
- Joel Manning, Finance Analyst/Manager
- Devon B. Beaty, Industrial Pretreatment Coordinator
- Michael A. (Tony) Young, Superintendent, Wastewater Treatment Plants
- Michael Hunter, Superintendent CWR Collections & Maintenance.

Administration and Finance

The most significant event that occurred for CWR Administration and Finance is the selection of Greene Finney to provide back office support including accounts payable, audit preparation, financial statement compilation and payroll functions. This led to approximately $20,000 in cost savings. CWR continues to engage the Chester Metropolitan District to provide Billing, Collection, Human Resources and Information Technology services. CWR engaged Raftelis to review its rate structure for equity and sufficiency to finance its ongoing operations. The new rate structure was presented in June as part of the required public comment period. Raftelis was also engaged to craft a Capital Recovery fee schedule. This was also presented to the Public for comment. CWR issued a Request for Proposal for Audit Services. Love Bailey was the firm chosen. CWR implemented a purchasing card program. This will enable staff to use a wider variety of vendors and reduce the need for cash advances and employee reimbursement. CWR joined the Fleet Maintenance program and Fuel purchase program which is administered by the State Administrative Agency. This has allowed us to reduce fuel and repair costs as we use the States purchasing power. CWR also started billing and collecting septic dumping fees. This move allowed us to increase the amount of time our septic haulers had to pay while simultaneously decreasing the time we received funds.

Maintenance & Collections

Maintenance & Collections upgraded the Gaston Farm pump station by installing a 175 kilowatt generator at a cost of $118,000. This will enable to station to continue operation in the event of a power outage. This was done with funds received through the Hazard Grant Mitigation Program administered by the Federal Emergency Management Administration.

In addition, CWR work began on the extension of sewer lines along Highway #9 and upgrade to the Rocky Creek collection basin. The project consists of a 21-inch gravity wastewater, a 36-inch gravity wastewater, an 18-inch gravity wastewater, 56 manholes, a 1,000 gallon per minute ("gpm") pump station, a 10-inch force main, and an 8-inch gravity wastewater. The project also includes approximately 7,000 feet of 21-inch gravity wastewater line, 260 feet of 36-inch gravity wastewater line, 4,450 feet of 18-inch gravity wastewater line, 56 manholes, a 1,000 gallon per minute wastewater pump station, 5,850 feet of 10-inch force main, and 8,050 feet of an 8-inch gravity wastewater line. The force main and gravity wastewater line will be constructed on easements that have been acquired by CWR. The land for the pump station has also been acquired.

The project will also provide wastewater service to three certified industrial sites and two non-certified industrial sites, which should aid in the development of these parcels. The wastewater lines are sized to accommodate the existing flow as well as future flow.

Boise Cascade, one of the largest producers of plywood and engineered wood products in North America, has expanded their existing operations in Chester County. The company has invested $23.5 million in the facility and created 52 new jobs. PPG has invested $20 million to upgrade its fiber glass manufacturing facility in Chester. The facility employs 150 people and manufactures direct-draw fiber glass products used in filament winding, pultrusion, long-fiber thermoplastics and wind energy applications. Carolina Poly, one of the largest polyethylene film manufactures in the U.S., has established a South Carolina operation and invested $100 million in their new facility. The new facility is slated to create 300 new jobs.

Additionally, on July 11th, 2017, Oregon-based Roseburg Forest Products announced that they will expand its operations with the construction of a new engineered wood products plant in Chester. The groundbreaking of the planned state-of-the-art manufacturing facility is expected in early 2018, with an anticipated operation start-up of mid-2019. The plant will create 148 full-time jobs.

The estimated cost of the wastewater project of $5.7 million dollars. CWR is financing this project by utilizing $500,000 of SC RIA grant funds, $2,912,165 of EDA funds, $75,000 of Utility Tax Credits (UTC) grant funds from Duke Energy, $25,000 UTC grant Fund from TruVista Communications with the remaining funds coming from CWR.

Maintenance & Collections upgraded the Gaston Farm pump station by installing a 175-kilowatt generator at a cost of $118,000. This will enable to station to continue operation in the event of a power outage. This was done with funds received through the Hazard Grant Mitigation Program administered by the Federal Emergency Management Administration. Work has also begun on the extension of sewer lines along Highway #9 and upgrade to the Rocky Creek collection basin.

Lando-Manetta WWTP

The Lando-Manetta Wastewater Treatment Plant expanded its capacity to treat 1.2 million gallons per day. A 400-kilowatt generator was installed at cost of $152,000. This will enable to plant to continue operations in the event of a power outage. This was also done with funds received through the Hazard Grant Mitigation program administered by the Federal Emergency Management Administration.

Rocky Creek WWTP

The Rocky Creek WWTP experienced no significant changes in operations. However, Rocky Creek continued to operate under a Consent Order issued by the South Carolina Department of Health and Environmental Control (SCDHEC) for a Whole Effluent Toxicity issue. We are working diligently to identify and solve the problem and have passed several toxicity tests.

Sandy River WWTP

The Sandy River WWTP experienced no significant changes in operations and added no substantial capital improvements during the 2017-2018 fiscal year.

Industrial Pretreatment Program (IPP)

The Industrial Pretreatment department experienced no significant changes in operations and added no substantial capital improvements during the 2017-2018 fiscal year. Footprints, an existing customer was added to our pretreatment program this fiscal year. We also received an application from Allvac Richburg for an increase in their discharge permit.

Foreward Looking Statements

Carolina Poly, one of the largest polyethylene film manufactures in the U.S., announced that it will expand its facility with an estimated capital investment of $52 million and 75 jobs in addition to the $100 million and 300 jobs already planned.

Three new hotels announced intentions to construct facilities in Richburg. HMS Management and Investment Group announced and has broken ground on the construction of a Holiday Inn Express. This hotel will be located beside The Gateway District conference center in Richburg, South Carolina. Hampton Inn also has plans to construct a hotel as well as Sleep Inn.

ShayoNano an innovative developer of advanced materials announced plans to construct a new manufacturing facility in Chester County. It will bring $14.7 million in capital investments and 40 new jobs.

CWR plans to issue a Request for Proposal for Information Technology services. The district is moving from a self-hosted server to an off-site solution. This will allow us to be more efficient and secure as we continue to grow. It will also allow personnel at our sites to access to our shared files.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2018 and 2017 are as follows:

- As of June 30, 2018, the District's net position totaled $12,397,544, of which $14,999,513 was net investment in capital assets and $110,427 of the total was restricted as to its use. After accounting for its net pension liability and other postemployment benefit ("OPEB") liability, the District has an unrestricted net deficit of ($2,712,396). As of June 30, 2017, the District's net position totaled $14,653,094, of which $14,596,009 was net investment in capital assets and $151,843 of the total was restricted as to its use. After accounting for its net pension and OPEB liabilities, the District had an unrestricted net deficit of ($94,758).
- Prior to accounting for its 2018 net pension and OPEB liabilities, the District's unrestricted net position was $2,481,286 or approximately 54% of total operating expenses. After accounting for its net pension and OPEB liabilities, the unrestricted net deficit of ($2,712,396) was approximately (59%) of total operating expenses. At the end of 2017, prior to accounting for its net pension liability, the District's unrestricted net position was $1,544,441 or approximately 36% of total operating expenses. After accounting for its 2017 net pension liability, the unrestricted net deficit of ($94,758) was approximately (2%) of total operating expenses.
- During 2018, charges for service totaled $4,431,709, compared to $4,060,138 in the prior year. The increase of $371,571 was primarily due to a sewer rate increase. During 2017, charges for service totaled $4,060,138, compared to $3,710,288 in the prior year. The increase of $349,850 was primarily due to an increase in flow from our monitored industrial customers and an increase in surcharges for high strength discharge.
- 2018 total revenues of $5,647,352 were $3,376,256 less than total revenues of $9,023,608 in the prior year. The decrease was due primarily to receiving less local option sales tax and federal and state grants in 2018. Total revenues in 2017 of $9,023,608 were $5,305,676 more than revenues of $3,717,932 in the prior year. The increase was primarily due to an increase in grant revenue in 2017.
- 2018 total expenses of $4,796,485 were $301,784 more than total expenses of $4,494,701 in the prior year. The increase was due primarily to an increase in the sewer line departmental expenses. 2017 total expenses of $4,494,701 were $327,338 more than total expenses of $4,167,363 in the prior year. The increase was due primarily to an increase in project related expenses related to the system upgrade and improvements. We also had a full-time financial analyst and pretreatment coordinator for the entire fiscal year 2017.
- The District's total debt decreased by $348,973 (14%) during 2018 and decreased by $258,308 (11%) during 2017. The decrease in the current year and prior year were both due to regularly scheduled principal payments.
- The District's net capital assets increased $1,212,291 (7%) during 2018. The increase was due to additions of $2,096,217, partially offset by depreciation expense of $867,045. The District's net capital assets increased $4,299,960 (34%) during 2017. The increase was due to additions of $5,110,788, partially offset by depreciation expense of $749,051.
- The District adopted GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*" ("Statement") for the year ended June 30, 2018. This Statement requires the District to recognize a net OPEB liability (and any related deferred outflows/inflows of resources) for the defined benefit postemployment healthcare plan of the District, a single-employer defined benefit OPEB Plan ("OPEB Plan"), on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures.

FINANCIAL HIGHLIGHTS (CONTINUED)

The adoption has resulted in the restatement of the District's net position as of July 1, 2017 for its financial statements to reflect the reporting of a net OPEB liability and deferred outflows of resources for its OPEB Plan in accordance with the provisions of this Statement. Net position of the District's government-wide financial statements as of July 1, 2017 was decreased by approximately $3,106,000, reflecting the cumulative change in accounting principle related to the adoption of this Statement. See Note III.C in the notes to the financial statements for more information regarding the District's OPEB Plan.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts –*Financial Section,* which includes management's discussion and analysis of the financial statements, the required supplementary information and other supplementary information, and the *Compliance Section* including single audit.

The financial statements report information about the District using the full accrual basis of accounting in a manner similar to those used by private sector companies. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a statement of net position; statement of revenues, expenses and changes in net position; statement of cash flows; and notes to the financial statements.

The District accounts for its activities using a *proprietary (enterprise) fund*. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The *statement of net position* provides information about the types and amounts of resources and obligations at year-end and distinguishes between current and non-current, or long-term, assets, deferred outflows, liabilities and deferred inflows, with the difference being reported as total net position. Over time, a change in net position is one indicator of whether the financial position of the District is improving.

The *statement of revenues, expenses, and changes in net position* presents the results of activities over the course of the fiscal year. Information is provided about how net position changed during the year. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user charges and fees and to determine its profitability and credit worthiness.

The *statement of cash flows* provides information about the District's cash receipts, cash payments and changes in cash resulting from operations, investments, and non-capital financing activities as well as capital and related financing activities. From the statement of cash flow, the reader can obtain information on the sources and uses of cash and the change in the cash balance from the beginning of the current fiscal year.

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

The financial statements can be found as listed in the table of contents.

The District adopts an annual appropriated budget. A budgetary comparison schedule has been provided in the supplementary information to demonstrate compliance with their budgets. The District made no budget amendments during the year so the original and final budgets are the same. These statements can be found as listed in the table of contents.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Major Features of the Chester Sewer District's Financial Statements	
	Enterprise Fund
Scope	Activities the District operates similar to private businesses, in the District's case, the water and sewer operations.
Required financial statements	▪ Statement of net position ▪ Statement of revenues, expenses, and changes in net position ▪ Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus
Type of asset/liability Information	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow Information	All revenues and expenses during year, regardless of when cash is received or paid

CONDENSED COMPARATIVE FINANCIAL DATA

See below for a summary of the District's net position as of June 30, 2018, 2017, and 2016.

Condensed Statement of Net Position

	June 30, 2018	June 30, 2017	Dollar Change	Percentage Change	June 30, 2016
Assets					
Current Assets	$ 8,627,100	6,803,751	1,823,349	26.8%	$ 7,289,409
Capital Assets	18,280,098	17,067,807	1,212,291	7.1%	12,767,847
Total Assets	26,907,198	23,871,558	3,035,640	12.7%	20,057,256
Deferred Outflow of Resources					
Deferred Pension Charged	594,941	552,794	42,147	7.6%	238,590
Liabilities					
Current Liabilities	7,401,242	5,197,589	2,203,653	42.4%	5,865,585
Long-Term Liabilities	1,914,730	2,212,216	(297,486)	-13.4%	2,471,733
Net Pension Liability	2,376,325	2,160,335	215,990	10.0%	1,609,032
OPEB Liability	3,051,009	169,460	2,881,549	1700.4%	87,246
Total Liabilities	14,743,306	9,739,600	5,003,706	51.4%	10,033,596
Deferred Inflow of Resources					
Deferred Credits	361,289	31,658	329,631	1041.2%	138,063
Net Position					
Net Investment in Capital Assets	14,999,513	14,596,009	403,504	2.8%	10,049,226
Restricted	110,427	151,843	(41,416)	-27.3%	23,047
Unrestricted	(2,712,396)	(94,758)	(2,617,638)	2762.4%	51,914
Total Net Position	$ 12,397,544	14,653,094	(2,255,550)	-15.4%	$ 10,124,187

CONDENSED COMPARATIVE FINANCIAL DATA (CONTINUED)

See below for the changes in net position for fiscal years 2018, 2017 and 2016.

Condensed Statement of Changes in Net Position

	2018	2017	Dollar Change	Percent Change	2016
Revenues					
Operating Revenues	$ 4,431,709	4,060,138	371,571	9.2%	$ 3,710,288
Non-Operating Revenues	94,753	14,344	80,409	560.6%	7,644
Grant Revenue	1,120,890	4,949,126	(3,828,236)	-77.4%	-
Total Revenues	5,647,352	9,023,608	(3,376,256)	-37.4%	3,717,932
Expenses					
Operating Expenses*	3,771,481	3,513,008	258,473	7.4%	3,293,164
Non-Operating Expenses	157,959	232,642	(74,683)	-32.1%	161,722
Depreciation Expense	867,045	749,051	117,994	15.8%	712,477
Total Expenses	4,796,485	4,494,701	301,784	6.7%	4,167,363
Change in Net Position	850,867	4,528,907	(3,678,040)	-81.2%	(449,431)
Beginning Net Position	14,653,094	10,124,187			10,573,618
Cumulative Change in Accounting Principle - GASB #75	(3,106,417)	-			-
Restated Beginning Net Position	11,546,677	10,124,187	1,422,490	14.1%	10,573,618
Ending Net Position	$ 12,397,544	14,653,094	(2,255,550)	-15.4%	$ 10,124,187

*Depreciation Expense is separated out from Operating Expenses compared to the Statement of Revenues and Expenses

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Financial Position

Total assets increased by $3,035,640 (13%) during fiscal year 2018 primarily due to an increase in cash of $1,384,882 (primarily due to the 2018 Revenue Bond Anticipation Note proceeds), higher grants receivable of $660,463, and an increase in capital assets of $1,212,291 (current year additions, partially offset by depreciation expense). Total assets increased by $3,814,302 (19%) during fiscal year 2017 primarily due to an increase in capital assets of $4,299,960, partially offset by a decrease in current assets of $485,658.

Total liabilities increased by $5,003,706 (51%) during fiscal year 2018 primarily due to a $2,203,653 increase in current liabilities as the District issued the 2018 Revenue Bond Anticipation Note and a $2,881,549 increase in the OPEB liability due to the implementation of GASB #75. Total liabilities decreased by $293,996 (3%) during fiscal year 2017 primarily due to a $258,308 reduction in debt as a result of routine principal payments and a $1,000,000 reduction in the bond anticipation note proceeds, partially offset by an increase in the net pension liability of $551,303.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS (CONTINUED)

Financial Position (continued)

During 2018, net position decreased by $2,255,550 (15%) as total revenues exceeded expenses by $850,867, which was more than offset by the implementation of GASB 75 and recognition of the OPEB liability. The decrease in net position was a result of a increase in the net amount invested in capital assets of $403,504, a decrease in restricted net position of $41,416 and a decrease in unrestricted net position of $2,617,638. The increase in the net investment in capital assets was attributable to current year additions less depreciation. The District's 2018 unrestricted balance without the net pension and OPEB liabilities would be $2,481,286. During 2017, net position increased by $4,528,907 (45%). The increase in net position was a result of an increase in the net amount invested in capital assets of $4,546,783, an increase in restricted net position of $128,696 and a decrease in unrestricted net position of $146,672. The increase in the net investment in capital assets was attributable to capital asset additions. The decrease in unrestricted net position, (funds which are available to fund the District's general operations) was primarily due to the District incurring an operating loss. The District's 2017 unrestricted balance without the net pension liability would be $1,544,441.

Operating Results

During fiscal year 2018, the District had an operating loss of $206,817, a decrease of $4,896 from the prior year loss of $201,921. Operating revenues increased by $371,571 or 9% during 2018. The increase was due to a $33,213 increase in residuals management fee revenues and a $348,233 increase in sewer service revenue primarily due to an increase in sewer rates. Operating expenses increased by $376,467 or 9% during 2018 primarily due to increased sewer line departmental expenses. During fiscal year 2017, the District had an operating loss of $201,921, a decrease of $93,432 from prior year loss of $295,353. Operating revenues increased by $349,850 or 10% during 2017. The increase was due to a planned increase in rates combined with increased industrial flow that resulted in increased sewer revenues. Operating expenses increased by $256,418 or 6% during 2017 primarily due to the increase of project related expenses incurred for the expansion to serve Giti and Carolina Poly.

Non-Operating Revenues

Non-operating revenues increased by $80,409 or 5611% during fiscal year 2018 primarily due changes in sales and utility tax credits. Non-operating revenues increased by $6,700 or 488 during fiscal year 2017 primarily due to an increase in interest revenue.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018 and 2017, the District had $18,280,098 and $17,067,807 respectively, invested in capital assets, net of depreciation.

In 2018, the net increase in the District's investment in capital assets was $403,504 (3%) as additions exceeded depreciation expense. In 2017, the net increase in the District's investment in capital assets was $4,546,783 (45%) as additions exceeded depreciation expense.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

At fiscal year end, the District's capital assets consisted of:

Capital Assets	June 30, 2018	June 30, 2017	June 30, 2016
Land	$ 241,333	241,333	$ 214,753
Construction in Progress	1,618,239	-	630,929
Buildings	2,258,431	2,258,431	2,309,142
Sewer System	26,306,137	25,862,362	20,308,416
Equipment	4,468,068	4,463,655	4,772,320
Automobiles	680,952	731,494	696,621
Laboratory Equipment	-	-	9,208
Less: Accumulated Depreciation	(17,293,062)	(16,489,468)	(16,173,542)
Totals	$ 18,280,098	17,067,807	$ 12,767,847

More detailed information about the District's capital assets in included in Note II.B of the Notes to the Financial Statements.

Debt

At fiscal year-end, the District's debt consisted of:

Debt	June 30, 2018	June 30, 2017	June 30, 2016
2014 Revenue Bond	$ 546,370	586,736	$ 625,767
2009 Revenue Bond	1,515,000	1,675,000	1,825,000
1998 Rocky Creek Wastewater Loan	-	147,336	203,993
1978 Capital Lease	61,455	62,726	63,860
	$ 2,122,825	2,471,798	$ 2,718,620

The District made $348,973 in principal payments during 2018 and $246,822 in principal payments in 2017.

2018 Revenue Bond Anticipation Note

In February 2018, the District issued the 2018 Revenue Bond Anticipation Note and are using these proceeds to cover any potential shortfall between incurrence of costs and reimbursements from grants. This short-term issuance matures in March 2019 and will be repaid with a combination of grant proceeds, fund balance and long term debt.

More detailed information about the District's debt and other long-term liabilities is presented in Note II.D to the financial statements.

ECONOMIC FACTORS

The District continues to see growth in residential, commercial and industrial customers. One new industrial customer has announced it will locate in Chester and an existing industrial customer will expand. We have had conversations with two developers concerning residential construction. There is an approved plan for Apartments on Edgeland road.

FISCAL YEAR 2018-2019 BUDGET

The Board of Directors has adopted the District's budget for the year ended June 30, 2019. The approval of the budget provides funding for the District's operating and debt service costs for the year end June 30, 2019. The District's sewer rates are reviewed by management and the Board of Commissioners on an annual basis.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's customers and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in the report or wish to request additional information, please contact the Chester Sewer District at PO Box 279, Richburg, South Carolina, 29729.

BASIC FINANCIAL STATEMENTS

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

STATEMENTS OF NET POSITION

JUNE 30, 2018 AND 2017

	ENTERPRISE FUND	
	2018	**2017**
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 1,644,160	$ 1,112,571
Restricted Cash and Cash Equivalents	5,264,718	4,411,425
Investments	207,035	279,159
Restricted Investments	110,427	-
Trade Receivables, Net	267,539	337,022
Federal Grant Receivables	765,463	105,000
Other Receivables	77,584	164,259
Unbilled Revenue	279,084	289,074
Prepaid Expenses	10,698	13,350
Due from Chester Metropolitan District	392	91,891
Total Current Assets	8,627,100	6,803,751
Capital Assets:		
Non-Depreciable	1,859,572	241,333
Depreciable, Net	16,420,526	16,826,474
Total Assets	26,907,198	23,871,558
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges - Net Pension Liability	594,941	552,794
LIABILITIES		
Current Liabilities:		
Accounts Payable	594,857	42,643
Accrued Expenses	262,988	367,718
Accrued Interest Payable	69,397	30,108
Compensated Absences	141,304	101,371
Customer Deposits	124,601	125,726
Due to Chester Metropolitan District	-	270,441
Current Maturities of Capital Leases	1,349	1,272
Current Maturities of Long-Term Debt	206,746	258,310
Bond Anticipation Note Payable	6,000,000	4,000,000
Total Current Liabilities	7,401,242	5,197,589
OPEB Liability	3,051,009	169,460
Net Pension Liability	2,376,325	2,160,335
Capital Leases, Net of Current Portion	60,106	61,454
Long-Term Debt, Net of Current Portion	1,854,624	2,150,762
Total Liabilities	14,743,306	9,739,600
DEFERRED INFLOWS OF RESOURCES		
Deferred Credits - Net Pension Liability	17,084	31,658
Deferred Credits - OPEB Liability	344,205	-
NET POSITION		
Net Investment in Capital Assets	14,999,513	14,596,009
Restricted for Debt Service	110,427	151,843
Unrestricted	(2,712,396)	(94,758)
Total Net Position	**$ 12,397,544**	**$ 14,653,094**

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	ENTERPRISE FUND	
	2018	**2017**
OPERATING REVENUES		
Sewer services	$ 3,874,215	$ 3,525,982
Residuals management fees	418,383	385,170
Capital project fees	139,111	128,074
Penalties	-	20,912
Total Operating Revenues	**4,431,709**	**4,060,138**
OPERATING EXPENSES		
Administration	1,084,559	1,002,194
Sewer lines	1,035,428	738,873
Rocky Creek plant	648,821	765,418
Sandy River plant	519,670	398,430
Lando plant	285,944	167,961
Pretreatment	187,059	144,201
Sludge Disposal	-	132,944
Depreciation	867,045	749,051
Bond issuance expense	10,000	18,996
OPEB expense	-	82,214
Loss on Sale of Capital Assets	-	61,777
Total Operating Expenses	4,638,526	4,262,059
OPERATING GAIN/(LOSS)	**(206,817)**	**(201,921)**
NON-OPERATING REVENUES (EXPENSES)		
CAPITAL GRANTS- RESTRICTED:		
Local option sales tax	76,333	1,599,509
State grants	20,343	1,586,089
Federal grants	1,024,214	1,763,528
Total Capital Grants- Restricted	1,120,890	4,949,126
NON-OPERATING REVENUES		
Interest Income	8,639	7,185
Other Revenue	72,575	7,159
Gain on Sale of Capital Assets	13,539	-
Total Non-Operating Revenues	94,753	14,344
NON-OPERATING EXPENSES		
Interest Expense	157,959	172,925
Transfer to Other Government	-	59,717
Total Non-Operating Expenses	157,959	232,642
Increase in Net Position	**850,867**	**4,528,907**
Net Position, Beginning of Year, As Previously Reported	14,653,094	10,124,187
Cumulative Change in Accounting Principal - GASB #75	(3,106,417)	-
Net Position, Beginning of Year, As Restated	11,546,677	10,124,187
Net Position, End Of Period	**$ 12,397,544**	**$ 14,653,094**

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	ENTERPRISE FUND	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	$ 4,511,182	$ 3,837,683
Cash Paid to Supplies and Employees	(3,545,619)	(2,913,438)
Net Cash Provided By Operating Activities	965,563	924,245
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from Other Revenue	72,575	-
Total Cash Flows Provided By Noncapital Financing Activities	72,575	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(1,677,301)	(5,110,788)
Contributed capital and miscellaneous income	-	4,956,285
Issuance of Revenue Bond Anticipation Note	6,000,000	4,000,000
Proceeds From Grants	547,102	-
Transfers to Other Governments	-	(59,717)
Gain on Sale of Capital Assets	13,539	-
Principal Paid on Debt	(4,348,973)	(5,246,823)
Interest Paid on Debt	(157,959)	(172,925)
Net Cash Provided By (Used In) Capital and Related Financing Activities	376,408	(1,633,968)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investments	(38,303)	-
Interest on Investments	8,639	7,185
Net Cash Provided By (Used In) Investing Activities	(29,664)	7,185
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,384,882	(702,538)
RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,523,996	6,226,534
RESTRICTED AND UNRESTRICTED CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 6,908,878	$ 5,523,996

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	ENTERPRISE FUND	
	2018	**2017**
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Gain (Loss)	$ (206,817)	$ (201,921)
Adjustments To Reconcile Operating Gain (Loss) To Net Cash Provided By Operating Activities:		
Depreciation Expense	867,045	749,051
Unrealized Gain on Investments	-	(2,162)
(Gain) Loss on Sale of Capital Assets	-	61,777
Changes In Assets and Liabilities:		
Trade Receivables, Net	69,483	2,431
Unbilled Revenue	9,990	(144,074)
Due from Chester Metropolitan District	91,499	128,636
Prepaid Expenses	2,652	7,737
Other Receivables	-	(209,448)
Accounts Payable	150,179	20,745
Due to Chester Metropolitan District	(270,441)	165,767
Accrued Expense	(65,441)	127,875
Compensated Absenses	39,933	5,213
Customer Service Deposits	(1,125)	(290)
Net OPEB Liability	(224,868)	82,214
Net Pension Liability	215,990	551,303
Changes In Deferred Outflows/Inflows of Resources:		
Deferred Pension Charges - Net Pension Liability	(42,147)	(314,204)
Deferred Pension Credits - Net Pension Liability	(14,574)	(106,405)
Deferred Pension Credits - OPEB	344,205	-
Net Cash Provided By Operating Activities	$ 965,563	$ 924,245
Non-Cash Investing, Capital and Financing Activities:		
Acquisition of Capital Assets Not Yet Paid For	$ 402,035	$ -

The notes to the financial statements are an integral part of this statement.
See accompanying independent auditor's report.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Chester Sewer District, South Carolina (the "District") was created in 1964 pursuant to Act Number 480 of the Acts of the General Assembly of the State of South Carolina and is exempt from federal and state income taxation. The District's principal purpose is to provide wastewater treatment in the City of Chester and various outlying communities. The District has no stockholders or equity holders and is directed by a governing board whose members are appointed by the Government of South Carolina.

In September 2016, the District's Board of Commissioners passed a resolution to allow the District to operate as Chester County Wastewater Recovery ("CWR"). CWR is a more accurate name detailing the actual function of the organization. Therefore, the District is "doing business as" (DBA) CWR.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units ("GAAP"). The Government Accounting Standards Boards ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

All activities for which the District's Board of Commissioners exercises oversight responsibility have been incorporated into the financial statements to form the reporting entity. The District's financial statements include the accounts of all District operations. The District does not have any component units.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are a minimum number of funds maintained to keep the accounts consistent with legal and managerial requirements. The District has only one fund, which is listed below.

Proprietary Fund Types are accounted for based on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Proprietary Fund types include the following fund:

The ***Enterprise Fund, a major fund,*** is used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the District has decided that periodic determination of revenues earned, expenses incurred, and/or net income is necessary for management accountability. The Enterprise Fund is the District's only fund and is used to account for the sewer operations of the District. The principal operating revenues of the Enterprise Fund are charges to customers for sewer services. Operating expenses for the Enterprise Fund include the cost of sales and servcies, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The Enterprise Fund is a budgeted fund.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Change in Accounting Principle

The District adopted GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*" ("Statement") for the year ended June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for other postemployment benefits ("OPEB"). It is GASB's intention that this new Statement will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the District's financial obligations to current and former employees for past services rendered.

In particular, this Statement requires the District to recognize an OPEB liability (and any related deferred outflows/inflows of resources, if material) along with a more comprehensive measure of OPEB expense for the defined benefit postemployment healthcare plan of the District, a single-employer defined benefit OPEB plan ("OPEB Plan"), on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e., the Statement of Net Position) and present more extensive note disclosures.

The adoption of this Statement resulted in the restatement of the District's net position as of July 1, 2017 to reflect the reporting of an OPEB liability for its OPEB Plan in accordance with the provisions of this Statement. Net position of the District's financial statements as of July 1, 2017 was decreased by approximately $3,106,000, reflecting the cumulative change in accounting principle related to the adoption of this Statement. See Note III.C for more information regarding the District's OPEB Plan.

C. Assets, Liabilities, and Equity

1. Cash, Cash Equivalents, and Investments

The District considers all highly liquid investments (including restricted assets) with original maturities of three months or less when purchased and investments in the South Carolina Local Government Investment Pool (the "Pool") to be cash equivalents. Securities with an initial maturity of more than three months (from when initially purchased) that are not purchased from the Pool are reported as investments.

The District's investment policy is designed to operate within existing statutes that authorize the District to invest in the following:

(a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.

(b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

(c) (i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

1. Cash, Cash Equivalents, and Investments (Continued)

(d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.

(e) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) above 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; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.

(f) Repurchase agreements when collateralized by securities as set forth in this section.

(g) No-load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), (c), and (f) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

The District's cash investment objectives are preservation of capital, liquidity and yield. The District reports its cash, cash equivalents, and investments at fair value which is normally determined by quoted market prices (except as noted).

The District is required to maintain debt service funds under the terms of the 2009 and 2014 Revenue Bonds notes and provisions outlined in the revenue bonds. The District also has unspent Bond Anticipation Note proceeds which are restricted based on the terms of the note. These debt service funds are shown as restricted investments and the unspent bond proceed funds are shown as restricted cash and cash equivalents in the Statements of Net Position.

The District currently or in the past year has used the following investments:

- South Carolina Local Government Investment Pool ("LGIP" or "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*" and GASB Statement No. 72 "*Fair Value Measurement and Application*", investments are carried at fair value determined annually based upon (a) quoted market prices for identical or similar investments or (b) observable inputs other than quoted market prices. 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, P.O. Box 11778, Columbia, SC 29211-1960.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

2. Capital Assets

All capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their estimated acquisition values as of the date received. The District maintains a capitalization threshold of $5,000. However, all land purchased will be capitalized regardless of cost.

The District's infrastructure assets have been reported separately under the caption Water and Sewer Equipment. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is capitalized.

All reported capital assets except land and construction in progress are depreciated. Construction projects begin being depreciated once they are completed and placed in service, at which time the complete costs of the project are transferred to the appropriate fixed asset category.

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:

ASSET CATEGORY	USEFUL LIFE RANGE
Land	Not Depreciated
Construction in Progress	Not Depreciated
Sewer System	40-50 Years
Buildings and Improvements	33 Years
Equipment	5-10 Years
Automobiles	5 Years
Laboratory Equipment	20-25 Years

3. Unbilled Revenue

The District renders bills to residential and commercial customer on billing cycles that end on various days throughout the month. Unbilled revenue represents the portion of residential and commercial bills rendered during the month of July for services that were provided in June.

4. Allowance for Doubtful Accounts

An allowance for possible credit losses is recorded and reduces the carrying value of trade receivables to its net realizable value. The amount of the reserve is based upon management's estimates of currently uncollectible accounts, historical trends, current economic trends and other factors. Provisions to increase the allowance are charged to operations. Account balances are written off when collection efforts are deemed ineffective. The allowance for accounts receivable at June 30, 2018 and 2017 totaled approximately $102,000 and $69,000, respectively.

5. Compensated Absences

District employees accumulate paid vacation and sick leave in varying amounts based on their years of service. If the employee is terminated without cause or resigns with proper notice, or retires, the employee is paid for accumulated vacation.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

6. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations payable from the District are reported in the Statements of Net Position.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position and the Balance Sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District currently has two types of deferred outflows of resources: (1) The District reports *deferred pension charges* in its Statements of Net Position in connection with its participation in the South Carolina Retirement System. (2) The District reports *deferred OPEB charges* in in its Statements of Net Position in connection with the Chester Sewer District Defined Benefit OPEB Plan. The *deferred pension and OPEB charges* are either (a) recognized in the subsequent period as a reduction of the net pension/OPEB liability (which includes contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension/OPEB expense in future periods in accordance with GAAP.

In addition to liabilities, the Statement of Net Position and the Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District currently has two types of deferred inflows of resources: (1) The District reports *deferred pension credits* in its Statements of Net Position in connection with its participation in the South Carolina Retirement System. (2) The District reports *deferred OPEB credits* in its Statements of Net Position in connection with the Chester Sewer District Defined Benefit OPEB Plan. The *deferred pension and OPEB credits* are amortized in a systematic and rational method and recognized as a reduction of pension/OPEB expense in future periods in accordance with GAAP.

8. Net Position

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

9. Pensions and Other Postemployment Benefits

In government-wide financial statements, pensions and other postemployment benefits ("OPEB") are required to be recognized and disclosed using the accrual basis of accounting (see Note III.A and Note III.C and the required supplementary information immediately following the notes to the financial statements for more information). The District recognizes net pension and OPEB liabilities for each plan for which it participates, which represents the excess of the total pension and OPEB liabilities over the fiduciary net position of the qualified plan, or the District's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the District's fiscal year-end.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

9. Pensions and Other Postemployment Benefits (continued)

Changes in the net pension and OPEB liabilities during the period are recorded as pension and OPEB expenses, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension and OPEB liabilities that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified plan and recorded as a component of pension and OPEB expense beginning with the period in which they are incurred. Any projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

10. Fair Value

The fair value measurement and disclosure framework provides for a three-tier fair value hierarchy that gives highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District can access at the measurement date.

Level 2 – Inputs to the valuation methodology, other than quoted prices included in Level 1, that are observable for an asset or liability either directly or indirectly and include:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted market prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology that are unobservable for an asset or liability and include:

- Fair value is often based on developed models in which there are few, if any, observable inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable values or reflective of future fair values. The District believes that the valuation methods used are appropriate and consistent with GAAP. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no significant changes from the prior year in the methodologies used to measure fair value.

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities, and Equity (Continued)

11. Use of Accounting Estimates

The preparation of the financial statements in conformity with GAAP in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue, expenditures or expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates affecting these financial statements are the estimated useful lives of property and equipment and the actuarially calculated estimates of the net pension liability and net OPEB obligation. Management is not aware of any condition that would materially affect those estimates in the near term.

II. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Deposits and Investments

Deposits

Custodial Credit Risk for Deposits: Custodial credit risk for deposits is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The District's policy regarding custodial credit risk related to deposits is that management monitors the amounts deposited that have exceeded the FDIC insurance limit of $250,000. The District deposits its funds in high quality and very large institutions, and considers shifting funds from one financial institution to another when funds greatly exceed the FDIC insurance coverage. As of June 30, 2018, none of the District's bank balances of $6,737,122 (which had a carrying value of $6,731,151) were exposed to custodial credit risk.

Investments

As of June 30, 2018, the District had the following non-security investments:

Investment Type	Fair Value Level [(1)]	Credit Rating ^	Fair Value	Investment Maturities in Years			
				< 1 yr	1 - 3 yrs	3 - 5 yrs	> 5 yrs
LGIP	N/A	NR	$ 384,662	384,662	-	-	$ -
Money Market Mutual Funds	Level 1	AAAm, Aaa-mf	110,427	110,427	-	-	-
Total			$ 495,089	495,089	-	-	$ -

^ If available, credit ratings are for Standard & Poor's and Moody's Investors Service.
(1) See Note I.C.10 for details of the District's fair value hierarchy.
NR – Not rated.
N/A - Not Applicable.

Interest Rate Risk: The District does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

Credit Risk for Investments: The Credit risk for investments is the risk that an issuer or other counter party to an investment will not fulfill its obligation. The Pool is an unrated non-security investment.

II. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

A. Deposits and Investments (Continued)

Custodial Credit Risk for Investments: Custodial credit risk for investments is the risk that, in the event of a bank failure, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's policy regarding custodial credit risk for investments is that all investments are collateralized by highly stable and low risk debt securities. The District monitors its investments periodically to ensure that the collateral exceeds the market value of investments. As of June 30, 2018, and 2017, none of the District's investments were exposed to custodial credit risk.

A reconciliation of the District's deposits and investments at June 30 on its statement of net position to this footnote disclosure is as follows:

Description	Amount
Carrying Amount of Deposits	$ 6,731,251
Fair Value of Investments	495,089
Total Deposits and Investments	$ 7,226,340
Statement of Net Position:	
Cash and Cash Equivalents	$ 1,644,160
Cash and Cash Equivalents, Restricted	5,264,718
Investments	207,035
Investments, Restricted	110,427
Total Cash, Cash Equivalents, and Investments	$ 7,226,340

II. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

B. Capital Assets

Capital asset activity for the District for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets, Not Being Depreciated:					
Land	$ 241,333	-	-	-	$ 241,333
Construction in Progress	-	1,618,239	-	-	1,618,239
Total Capital Assets, Not Being Depreciated	241,333	1,618,239	-	-	1,859,572
Capital Assets, Being Depreciated:					
Buildings	2,258,431	-	-	-	2,258,431
Sewer System	25,862,362	443,775	-	-	26,306,137
Equipment	4,463,655	4,413	-	-	4,468,068
Automobiles	731,494	29,790	80,332	-	680,952
Total Capital Assets, Being Depreciated	33,315,942	477,978	80,332	-	33,713,588
Less: Accumulated Depreciation	16,489,468	867,045	63,451	-	17,293,062
Total Capital Assets, Being Depreciated, Net	16,826,474	(389,067)	16,881	-	16,420,526
Capital Assets, Net	$ 17,067,807	1,229,172	16,881	-	$ 18,280,098

Capital asset activity for the District for the year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets, Not Being Depreciated:					
Land	$ 214,753	10,000	-	16,580	$ 241,333
Construction in Progress	630,929	-	52,906	(578,023)	-
Total Capital Assets, Not Being Depreciated	845,682	10,000	52,906	(561,443)	241,333
Capital Assets, Being Depreciated:					
Buildings	2,309,142	-	50,711	-	2,258,431
Sewer System	20,308,416	5,020,792	133,563	666,717	25,862,362
Equipment	4,772,320	64,446	243,837	(129,274)	4,463,655
Automobiles	696,621	15,550	4,677	24,000	731,494
Laboratory Equipment	9,208	-	9,208	-	-
Total Capital Assets, Being Depreciated	28,095,707	5,100,788	441,996	561,443	33,315,942
Less: Accumulated Depreciation	16,173,542	749,051	433,125	-	16,489,468
Total Capital Assets, Being Depreciated, Net	11,922,165	4,351,737	8,871	561,443	16,826,474
Capital Assets, Net	$ 12,767,847	4,361,737	61,777	-	$ 17,067,807

II. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

B. Capital Assets (Continued)

Included in capital assets are assets purchased under capital leases with a net book value of approximately $15,000 and $17,000 at June 30, 2018 and 2017, respectively.

C. Accrued Expenses

Accrued expenses consist primarily of employee related withholdings.

D. Long Term Obligations

A summary of long-term debt payable at June 30, 2018 is as follows:

2014 Revenue Bond Interest at 4.65% with monthly payments ranging from $75,000 to $305,000 through March 2024. The District took advantage of the market conditions and restructured its debt through the commercial market in September of 2009. The District issued the $2.6 million 2011 Series Bond and used the proceeds of this bond to pay off the 1979 Revenue Bond (5.00%), the 1992 Sandy River Loan (4.75%), the 1992 Rocky Creak loans (4.75%) and the 1989 Wachovia loan (4.79%) and to fund certain future capital projects.	$ 546,370
2009 Revenue Bond Interest at 3.42% with annual principal and interest payments of $60,432 through April 2029. Proceeds were used to upgrade the Rocky Creak Wastewater Treatment Plant.	1,515,000
Total Outstanding Principal	2,061,370
Less: Current Portion	206,746
Total Long- Term Debt Payable	$ 1,854,624

In 1978, the District entered into an agreement with the City of Chester to lease the municipal sewer and sewage disposal system through the year 2040. Lease terms provide for rental payments totaling $5,000 per year including 6% interest. The District is also required to pay $5,000 per year into an escrow account maintained under joint control of the Mayor of the City of Chester and the Executive Director of the District. The escrow funds are to be used for the sole purpose of making extensions and improvements to the sewer system only.

II. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

D. Long Term Obligations (Continued)

The following is a summary of changes in District long-term obligations for the year ended June 30, 2018:

Long-Term Obligation	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2014 Revenue Bond	$ 586,736	-	40,366	546,370	$ 41,746
2009 Revenue Bond	1,675,000	-	160,000	1,515,000	165,000
1998 Rocky Creek Wastewater Loan	147,336	-	147,336	-	-
1978 Capital Lease	62,726	-	1,271	61,455	1,349
Total Debt	2,471,798	-	348,973	2,122,825	208,095
Compensated Absences	101,371	115,961	76,028	141,304	141,304
Total	$ 2,573,169	115,961	425,001	2,264,129	$ 349,399

The annual debt service requirements to maturity for bonds and capital leases were as follows:

	Revenue Bonds		Capital Lease		
Year Ending June 30	**Principal**	**Interest**	**Principal**	**Interest**	**Total**
2019	$ 206,746	89,133	$ 1,349	3,650	$ 300,878
2020	273,174	80,033	1,433	3,567	358,207
2021	294,651	67,862	1,521	3,479	367,513
2022	316,178	54,710	1,615	3,385	375,888
2023	342,757	40,575	1,714	3,286	388,332
2024-2028	569,431	51,913	10,295	14,705	646,344
2029-2033	58,433	1,999	13,886	11,114	85,432
2034-2038	-	-	18,730	6,270	25,000
2039-2043	-	-	10,912	813	11,725
Total	$ 2,061,370	386,225	$ 61,455	50,269	$ 2,559,319

Under the most restrictive provisions of the debt agreements, the District is required to maintain amounts equal to one year of debt payments in separate cash accounts. The District is in compliance with its debt covenants.

II. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES (CONTINUED)

D. Long Term Obligations (Continued)

The following is a summary of changes in District long-term obligations for the year ended June 30, 2017:

Long-Term Obligation	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2014 Revenue Bond	$ 625,767	-	39,031	586,736	$ 40,366
2009 Revenue Bond	1,825,000	-	150,000	1,675,000	160,000
1998 Rocky Creek Wastewater Loan	203,993	-	56,657	147,336	57,944
1978 Capital Lease	63,860	-	1,134	62,726	1,272
Total Debt	2,718,620	-	246,822	2,471,798	259,582
Compensated Absences	96,158	78,788	73,575	101,371	101,371
Total	$ 2,814,778	78,788	320,397	2,573,169	$ 360,953

E. Short Term Debt

The District issued a $4,000,000 bond anticipation note in fiscal year 2017 to cover any potential short falls between incurrence of costs and reimbursements from grants. This was a one year note bearing interest at 1.43% and was repaid on June 28, 2018.

The District issued a $6,000,000 bond anticipation note in fiscal year 2018 to cover any potential short falls between incurrence of costs and reimbursements from grants. This was a one year note bearing interest at 2.14% and is to be repaid on March 8, 2019.

Short Term Obligation	Beginning Balance	Additions	Reductions	Ending Balance
2017 Bond Anticipation Note	$ 4,000,000	-	4,000,000	-
2018 Bond Anticipation Note	-	6,000,000	-	6,000,000
Total Debt	4,000,000	6,000,000	4,000,000	6,000,000

III. OTHER INFORMATION (CONTINUED)

A. Retirement Plan

State Retirement Plan

The District participates in the State of South Carolina's retirement plan, which are administered by the South Carolina Public Employee Benefit Authority ("PEBA"), which was created on July 1, 2012 and administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors ("PEBA Board"), appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the State Fiscal Accountability Authority ("SFAA"), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems ("Systems") and serves as a co-trustee of the Systems in conducting that review. Effective July 1, 2017, the Retirement System Funding and Administration Act of 2017 assigned the PEBA Board as the Custodian of the Retirement Trust Funds and assigned SC PEBA and the Retirement Systems Investment Commission ("RSIC") as co-trustees of the Retirement Trust Funds.

The PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the System' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. The 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 Description

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

Plan Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each 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.

III. OTHER INFORMATION (CONTINUED)

A. Retirement Plan (Continued)

Plan 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/current annual salary. A brief summary of benefit terms for each system is presented below.

- SCRS – A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

  The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

Plan Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the percentage rate in the SCRS ("Plan") 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 total employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS. An increase in the contribution rates adopted by the PEBA 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 PEBA Board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the PEBA Board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; this increase is not limited to one-half of one percent per year.

If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, then the PEBA Board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 2.9 differential between the SCRS employer and employee contribution rates respectively. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than ninety percent, then effective on the following July first, and annually thereafter as necessary, the PEBA Board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90 percent.

III. OTHER INFORMATION (CONTINUED)

A. Retirement Plan (Continued)

Plan Contributions (Continued)

The Retirement System Funding and Administration Act of 2017 increases employer contribution rates to 13.56 percent for the SCRS, effective July 1, 2017. It also removes the 2.9 percent differential and increases and establishes a ceiling on employee contribution rates at 9 percent for the SCRS. The employer contribution rates will continue to increase annually by 1 percent through July 1, 2022. The legislation's ultimate scheduled employer rate is 18.56 percent for the SCRS. The amortization period is scheduled to be reduced one year for each of the next 10 years to a twenty year amortization schedule. The recent pension reform legislation also changes the long term funded ratio requirement from ninety to eighty-five.

As noted earlier, both employees and the District are required to contribute to the Plans at rates established and as amended by the PEBA. The District's contributions are actuarially determined but are communicated to and paid by the District as a percentage of the employees' annual eligible compensation. Required employer and employee contribution rates for the past three years are as follows:

	SCRS Rates		
	2016	2017	2018
Employer Contribution Rate:^			
Retirement*	10.91%	11.41%	13.41%
Incidental Death Benefit	0.15%	0.15%	0.15%
Accidental Death Contributions	0.00%	0.00%	0.00%
	11.06%	11.56%	13.56%
Employee Contribution Rate	8.16%	8.66%	9.00%

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

The required contributions and percentages of amounts contributed by the District to the Plan for the past three years were as follows:

Year Ended	SCRS Contributions	
June 30,	Required	% Contributed
2018	$ 159,283	100%
2017	119,911	100%
2016	$ 106,858	100%

Eligible payrolls of the District covered under the Plan for the past three years were as follows:

Year Ended June 30,	SCRS Payroll
2018	$ 1,174,655
2017	1,037,292
2016	$ 966,166

III. OTHER INFORMATION (CONTINUED)

A. Retirement Plan (Continued)

Actuarial Assumptions and Methods

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

The June 30, 2017 total pension liability, net pension liability, and sensitivity information shown in this report were determined by the consulting actuary, Gabriel, Roeder, Smith and Company ("GRS") and are based on an actuarial valuation performed as of July 1, 2016. The total pension liability was rolled-forward from the valuation date to the plans' fiscal year end, June 30, 2017, using generally accepted actuarial principles. The Retirement System Funding and Administration Act of 2017 was signed into law April 25, 2017, and included a provision to reduce the assumed rate of return from 7.50% to 7.25% effective July 1, 2017. As a result of this legislation, GRS made an adjustment to the calculation of the roll-forward total pension liability for this assumption change as of the measurement date of June 30, 2017.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2016 valuations for the SCRS.

	SCRS
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return*	7.25%
Projected Salary Increases*	3.0% to 12.5% (varies by service)
Benefit Adjustments	Lesser of 1% or $500 annually

* Includes inflation at 2.25%.

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table ("2016 PRSC"), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

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

III. OTHER INFORMATION (CONTINUED)

A. Retirement Plan (Continued)

Long-Term Expected Rate of Return

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

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2017 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table on the following page. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

Allocation/Exposure	Target Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Global Equity	**45.0%**		
Global Public Equity	31.0%	6.72%	2.07%
Private Equity	9.0%	9.60%	0.86%
Equity Options Strategies	5.0%	5.91%	0.30%
Real Assets	**8.0%**		
Real Estate (Private)	5.0%	4.32%	0.22%
Real Estate (REITs)	2.0%	6.33%	0.13%
Commodities	1.0%	6.26%	0.06%
Opportunistic	**17.0%**		
GTAA/Risk Parity	10.0%	4.16%	0.42%
Hedge Funds (non-PA)	4.0%	3.82%	0.15%
Other Opportunistic Strategies	3.0%	4.16%	0.12%
Diversified Credit	**18.0%**		
Mixed Credit	6.0%	3.92%	0.24%
Emerging Markets Debt	5.0%	5.01%	0.25%
Private Debt	7.0%	4.37%	0.31%
Conservative Fixed Income	**12.0%**		
Core Fixed Income	10.0%	1.60%	0.16%
Cash and Short Duration (Net)	2.0%	0.92%	0.02%
Total Expected Real Return	100.0%		5.31%
Inflation for Actuarial Purposes			2.25%
Total Expected Nominal Return			7.56%

III. OTHER INFORMATION (CONTINUED)

A. Retirement Plan (Continued)

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

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, 2017, for the SCRS, are presented in the following table:

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

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

The total pension liability is calculated by the Systems' actuary, and each Plan fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB No. 67 in the Systems' 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.

At June 30, 2018, the District reported a liability of approximately $2,376,000 for its proportionate share of the net pension liability for the SCRS. The net pension liability was measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined based on the most recent actuarial valuation report of July 1, 2016 that was projected forward to the measurement date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the Plan relative to the projected contributions of all participating South Carolina state and local governmental employers, actuarially determined. At the June 30, 2017 measurement date, the District's SCRS proportion was 0.010556 percent, which was an increase of 0.000442 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of approximately $159,000 for the SCRS. At June 30, 2018, the District reported deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
SCRS		
Differences Between Expected and Actual Experience	$ 10,594	$ 1,317
Change in Assumptions	139,108	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	66,336	-
Changes in Proportion and Differences Between the Employer's Contributions and Proportionate Share of Contributions	219,620	15,767
Employer Contributions Subsequent to the Measurement Date	159,283	-
Total SCRS	$ 594,941	$ 17,084

III. OTHER INFORMATION (CONTINUED)

A. Retirement Plan (Continued)

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

Approximately $159,000 that were reported as deferred outflows of resources related to the District's contributions subsequent to the measurement date to the SCRS, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources (deferred pension charges) and deferred inflows of resources (deferred pension credits) related to the SCRS will increase (decrease) pension expense as follows:

Year Ended June 30,	SCRS
2019	$ 145,755
2020	192,617
2021	97,033
2022	(16,831)
Total	$ 418,574

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina Code of Laws. 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.

Sensitivity Analysis

The following table presents the sensitivity of the District's proportionate share of the net pension liability of the Plan to changes in the discount rate, calculated using the discount rate of 7.25 percent, as well as what it would be if it were calculated using a discount rate that is 1% point lower (6.25 percent) or 1% point higher (8.25 percent) than the current rate:

System	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the net pension liability of the SCRS	$ 3,062,757	2,376,325	$ 1,959,823

Plans Fiduciary Net Position

Detailed information regarding the fiduciary net position of the Plan administered by the PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for the SCRS. The CAFR is publicly available through the Retirement Benefits' link on the PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223.

III. OTHER INFORMATION (CONTINUED)

A. Retirement Plan (Continued)

Payable to Plan

The District reported a payable of approximately $51,000 to the PEBA as of June 30, 2018, representing required employer and employee contributions for the months of May and June 2018 for the SCRS. This amount is included in Accrued Expenses on the financial statements and was paid in July 2018.

B. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District continues to carry commercial insurance for property and casualty insurance.

The District maintains a fully insured program for health insurance coverage for all employees. The District is required to pay monthly premiums; all claims are paid by the insurance company.

There has been no reduction in insurance coverage compared to the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

C. Other Postemployment Benefit Plan

Plan Description

The District administers a defined benefit postemployment healthcare plan, a single-employer defined benefit other postemployment benefit plan ("OPEB Plan"). This plan provides medical and dental insurance for retirees and dependents. Full-time and part-time employees are required to enter into the State Retirement System as a condition of their employment. The employee will contribute a portion of his gross salary per pay period into retirement plan with the District contributing an additional amount. The employee and employer shares are set by PEBA and not the District. No assets are accumulated in a trust as defined by GAAP. The OPEB Plan does not issue a stand-alone financial report.

Plan Membership

As of June 30, 2018, the last actuarial valuation, the following employees were covered by the OPEB Plan's benefit terms:

Inactive Members or Beneficiaries Currently Receiving Benefit Payments	5
Active Members	19
Total Membership	24

III. OTHER INFORMATION (CONTINUED)

C. Other Postemployment Benefit Plan (Continued)

Plan Benefits and Contributions

The District contributes the employer portion of the premium cost for coverage of eligible employees and covered dependents in the State of South Carolina's Employee Insurance Plan. The District also currently contributes an additional $16.70 toward the employee's portion of the premiums. The employer and employee's contribution are set by the PEBA and not by the District.

Effective July 1, 2015, the District began contributing to the premium cost of retiree group health insurance in the state's retiree insurance program as set forth below. This policy may be altered or eliminated at any time in the District's discretion on notice to participating retirees. Eligibility to participate in the state's retiree insurance program is required and is determined by the PEBA and not by this or any of the District's policies. Eligibility to retire under the rules of the state retirement plan is also required and is determined by PEBA retirement system. In accordance with District policy, "years of consecutive full-time service to the District" means years of service to the Chester Sewer District. At retirement, if an employee has reached at least 10 years of service with the District, the District will accept up to 5 years of full-time service with a PEBA (SCRS & EIP) participating employer to apply towards District funding guidelines. In order for the service to count, the employee must have participated in PEBA's retirement and insurance program in the previous public employment.

Employees and Former Employees Hired Before May 2, 2008

Funded – for the following employees or former employees who meet the age and service requirements below, the District will pay 100% of the premium for retiree coverage and will pay towards any dependent coverage the equivalent of the employer portion of the premium for active coverage. The retiree will be responsible for the remainder of the premium.

- Current employees who at the time of retirement will be at least 60 years of age, or on PEBA-approved disability retirement, and have at least ten years of consecutive full-time service to the District.
- Employees with 25 years of service with the District, who retire before age 60, will be eligible for funded insurance premiums at the time they would have reached 28 years of service or reached 60 years of age, whichever occurs first.
- Current employees who at the time of retirement have at least 28 years of consecutive full-time service to the District.
- Employee's last 5 years of service must have been served consecutively in a full- time, benefits eligible position with the District.
- Non-Funded – for all other current and former employees, the retiree will be responsible for the entire premium cost.

Employees and Former Employees Hired On or After May 2, 2008

- Funded – for current employees who at the time of retirement will have 25 years of consecutive full-time service to the District, the District will pay 100% of the premium for retiree coverage and will pay towards any dependent coverage the equivalent of the employer portion of the premium for active coverage. The retiree will be responsible for the remainder of the premium.

III. OTHER INFORMATION (CONTINUED)

C. Other Postemployment Benefit Plan (Continued)

Plan Benefits and Contributions (Continued)

- Partially Funded – for current employees who at the time of retirement will have 15 years but fewer than 25 years of consecutive full-time service to the District, the District will pay towards the elected coverage the equivalent of 50% of the employer portion of the premium for active coverage. The retiree will be responsible for the remainder of the premium.
- Non-Funded – for all current employees, the retiree will be responsible for the entire premium cost.

The District contributes $16.70 monthly toward the employee's portion of the premium.

District Premiums Paid:

Funded	100%	Retiree and Dependent Premiums
Partially Funded	50%	Retiree Premiums
Non-Funded	0%	The Retiree is responsible for the entire premium

Actuarial Assumptions and Method

Actuarial valuations of the OPEB Plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, inflation, healthcare cost trend rates, and future salary changes. Amounts determined regarding the net OPEB liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan (the plan as understood by the employer and its 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 actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following table provides a summary of the significant actuarial assumptions and methods used in the latest actuarial valuation for the OPEB Plan.

Actuarial Valuation Date	July 1, 2017
Acuarial Cost Method	Entry Age normal
Assets Backing OPEB Liability	None
Plan Asset Return	0.00%
Bond Yield	3.56%
Discount Rate	3.56%
Measurement Date	June 30, 2017
Prior Measurement Date	June 30, 2016
Prior Year Discount Rate	3.01%
Projected Salary Increases	3.00%
Percentage Participation	95.00%
Mortality Table	RP-2014 Mortality Table

III. OTHER INFORMATION (CONTINUED)

C. Other Postemployment Benefit Plan (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB Plan investments is 3.56% at June 30, 2018, which is the municipal bond rate as the OPEB Plan does not have any investments in an irrevocable trust, as defined by GASB 75.

OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

The District's OPEB liability was measured as of June 30, 2017 and the OPEB liability and expense as of June 30, 2018 were calculated using the Entry Age normal as discussed above.

	OPEB Liability
Balance as of June 30, 2017	$ 3,275,877
Changes for the year:	
Service Cost	100,689
Interest	98,143
Difference Between Expected/Actual Experience	(5,908)
Changes of Assumptions or Other Inputs	(386,913)
Benefit Payments and Implicit Subsidy Credit	(30,879)
Net Changes	(224,868)
Balance as of June 30, 2018	$ 3,051,009

OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of approximately $150,000. The District deferred inflows of resources related to its OPEB Plan was approximately $344,000 as of June 30.

Discount Rate

The discount rate (long-term expected rate of return on OPEB Plan investments) used to measure the OPEB liability was 3.56% as June 30, 2018, which is the municipal bond rate as the OPEB Plan does not have any investments in an irrevocable trust as defined by GASB 75.

Sensitivity of the OPEB Liability to Changes in the Discount Rate

The following table presents the sensitivity of the District's OPEB liability to changes in the discount rate, calculated using the discount rate of 3.56%, as well as what it would be if it were calculated using a discount rate that is 1% point lower (2.56%) or 1% point higher (4.56%) than the current rate:

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
OPEB Liability	$ 3,802,612	3,051,009	$ 2,481,948

III. OTHER INFORMATION (CONTINUED)

C. Other Postemployment Benefit Plan (Continued)

Sensitivity of the OPEB Liability to Changes in the Medical Cost Trend Rate

The following table presents the sensitivity of the District's OPEB liability to changes in the medical cost trend rate, calculated using the medical cost trend rate of 7.50%, as well as what it would be if it were calculated using a medical cost trend rate that is 1% point lower (6.50%) or 1% point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Medical Cost Trend Rate (7.50%)	1% Increase (8.50%)
OPEB Liability	$ 2,429,151	3,051,009	$ 3,896,856

D. Commitments

As of June 30, 2018, the District had outstanding construction commitments of approximately $5,607 ,000 at June 30, 2018, of which EDA will cost share 52% up to approximately $2,910,000 and RIA has committed $500,000.

E. Subsequent Events

The District is not aware of any subsequent events as of October 16, 2018, the date these financials were available to be issued.

F. Related Parties

Chester Metropolitan District (the "Metropolitan District"), an independent organization, and the District share common facilities. Billing and collections are performed jointly by the organizations, with separate accounting records maintained for each organization. The District reimburses the Metropolitan District for a portion of the salary of employees who perform services for both organizations and any portion of expenses associated with shared space and equipment, along with other expenses paid by the Metropolitan District that were incurred by the District. Expense reimbursements for years ended June 30, 2018 and 2017, were approximately $202,000 and $167,000, respectively. At June 30, 2018 and 2017, the District had amounts due to the Chester Metropolitan District of approximately $0 and $270,000, respectively included in the accompanying balance sheet. The District had a balance due from the Metropolitan District of approximately $1,000 and $92,000 at June 30, 2018 and 2017, respectively, included in the accompanying balance sheets.

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REQUIRED SUPPLEMENTARY INFORMATION

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLAN SCHEDULE

SCHEDULE OF CHANGES IN THE AUTHORITY'S OPEB LIABILITY AND RELATED RATIOS

FISCAL YEAR 2018

		Year Ended June 30, 2018
OPEB Liability:		
Service Cost	$	100,689
Interest		98,143
Differences Between Expected and Actual Experience		(5,908)
Changes of Assumptions		(386,913)
Benefit Payments, Including Refunds of Member Contributions		(30,879)
Net Change in Total OPEB Liability		(224,868)
OPEB Liability - Beginning of Year		3,275,877
OPEB Liability - End of Year (a)	$	3,051,009
Covered-Employee Payroll	$	1,094,898
OPEB Liability as a Percentage of Covered-Employee Payroll		278.66%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30, 2017 (measurement date).
The Authority adopted GASB #75 during the year ended June 30, 2018. Information is not available for prior years.
Significant Changes of Assumptions: Discount Rate changed from 3.01% to 3.56%

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SOUTH CAROLINA RETIREMENT SYSTEM

LAST FIVE FISCAL YEARS

	Year Ended June 30,				
	2018	**2017**	**2016**	**2015**	**2014**
Authority's Proportion of the Net Pension Liability	0.010556%	0.010114%	0.008484%	0.008794%	0.008794%
Authority's Proportionate Share of the Net Pension Liability	$ 2,376,325	2,160,335	1,609,032	1,514,035	$ 1,577,330
Authority's Covered Payroll	$ 1,037,292	966,166	795,917	799,547	$ 761,302
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	229.09%	223.60%	202.16%	189.36%	207.19%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	53.34%	52.91%	56.99%	59.92%	56.39%

Notes to Schedule:

The amounts presented for each fiscal year were determined as of June 30th of the preceding year.
The District implemented GASB #68/71 during the year ended June 30, 2015. Information before 2014 is not available.
The discount rate was lowered from 7.50% to 7.25% for the year ended June 30, 2018

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF AUTHORITY'S CONTRIBUTIONS
SOUTH CAROLINA RETIREMENT SYSTEM

LAST FIVE FISCAL YEARS

	Year Ended June 30,				
	2018	**2017**	**2016**	**2015**	**2014**
Contractually Required Contribution	$ 159,283	119,911	106,858	86,755	$ 84,752
Contributions in Relation to the Contractually Required Contribution:	159,283	119,911	106,858	86,755	84,752
Contribution Deficiency (Excess)	$ -	-	-	-	$ -
Authority's Covered Payroll	$ 1,174,655	1,037,292	966,166	795,917	$ 799,547
Contributions as a Percentage of Covered Payroll:	13.56%	11.56%	11.06%	10.90%	10.60%

Notes to Schedule:

The District implemented GASB #68/71 during the year ended June 30, 2015. Information before 2014 is not available.
The contractually required contribution rate was increased from 11.56% to 13.56% of eligible payroll for the year ended June 30, 2018.

SUPPLEMENTARY INFORMATION

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2018

	Budget	Actual	Variance
OPERATING EXPENSES			
Administrative & General Expenses:			
Salaries	236,000	230,312	5,688
FICA Tax	18,500	31,038	(12,538)
Retirement	32,500	59,959	(27,459)
Workman's Compensation	14,500	25,015	(10,515)
Uniforms & Shoes	100	151	(51)
Health and Insurance	33,000	53,621	(20,621)
Retiree Insurance	41,000	23,862	17,138
Dues & Meetings	10,000	15,539	(5,539)
Safety Training	12,000	12,910	(910)
Legal	80,000	57,564	22,436
Bond Issue Expense	3,500	10,000	(6,500)
Audit	25,000	32,212	(7,212)
Postage	1,000	1,198	(198)
Utilities	8,400	12,280	(3,880)
Project Engineering Expenses	4,000	24,300	(20,300)
Property Maintenance	14,000	3,290	10,710
Contract Services	94,000	194,799	(100,799)
CMD Admin Bill	92,000	201,977	(109,977)
Office Lease	18,700	20,051	(1,351)
Copier Lease	3,200	5,852	(2,652)
Subscriptions	-	1,363	(1,363)
US Bank Trust Services	3,000	5,817	(2,817)
Office Supplies	13,000	8,626	4,374
Company Appreciation Dinner	5,000	2,561	2,439
Hilarity Supplies	-	17	(17)
Vehicle Repair & Maintenance	3,600	5,962	(2,362)
Equipment Fuel	6,000	6,899	(899)
Cleaning Services	-	5,500	(5,500)
Commission Meals and Expenses	1,000	1,223	(223)
City Lease	5,000	3,785	1,215
City Lease escrow	5,000	5,000	-
Property & Liability Insurance Expense	60,000	5,267	54,733
Bank Fees	20,000	-	20,000
Bad Debt Expense	500	1,004	(504)
Contigency	10,000	-	10,000
Community Outreach	10,000	13,174	(3,174)
Capital Expense	315,700	-	315,700
Non Capitalized Assets	15,000	2,183	12,817
Miscellaneous Expense	10,000	10,248	(248)
Total Administrative & General Expenses	1,224,200	1,094,559	129,641

(continued)

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2018

	Budget	Actual	Variance
Sewer Lines Expenses:			
Salaries	430,000	413,103	16,897
FICA Tax	33,000	28,570	4,430
Retirement	60,000	110,573	(50,573)
Health Insurance	63,000	62,023	977
Retiree Insurance	-	4,561	(4,561)
Workman's Compensation	-	3,953	(3,953)
Uniforms & Shoes	3,500	3,040	460
Dues	1,000	152	848
Education & Travel	6,000	2,440	3,560
Safety Training	1,500	4,704	(3,204)
Utilities	36,000	31,844	4,156
Legal	-	6,688	(6,688)
Rent	12,000	18,230	(6,230)
Property & Liability Insurance Expense	2,000	9,405	(7,405)
Engineering services	52,000	125,775	(73,775)
Contract Services	13,000	27,409	(14,409)
Outside Lab Testing	2,500	-	2,500
Permits	1,625	-	1,625
Property Maintenance	2,000	1,420	580
Line & Lift Station Chemicals	5,000	10,638	(5,638)
Supplies	32,500	30,379	2,121
Road Repair	10,000	1,449	8,551
Equipment Repair	21,000	64,776	(43,776)
Equipment Fuel	19,500	19,792	(292)
Auto and Equipment Repair & Maintenance	5,000	23,353	(18,353)
Spill Recovery	2,000	4,945	(2,945)
Non Capitalized Assets	1,250	23,247	(21,997)
Miscellaneous	5,500	2,959	2,541
Total Sewer Lines Expenses	820,875	1,035,428	(214,553)
Lando Plant Expenses:			
Salaries	87,500	92,370	(4,870)
FICA Tax	7,000	8,755	(1,755)
Retirement	12,000	25,771	(13,771)
Health Insurance	9,000	21,155	(12,155)
Workman's Compensation	-	395	(395)
Uniforms & Shoes	500	566	(66)
Dues	200	250	(50)
Safety Training	900	1,358	(458)
Safety Training	500	753	(253)
Utilities	40,500	41,079	(579)
Vehicle Maintenance	1,000	494	506
Legal Services	1,000	-	1,000
Engineering Services	25,000	19,380	5,620
Property Maintenance	6,000	5,766	234

(continued)

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2018

	Budget	Actual	Variance
Contract Service	13,800	14,881	(1,081)
Outside Lab Testing	13,000	11,868	1,132
Permits	1,800	75	1,725
Lab Supplies & Chemicals	4,800	10	4,790
Sludge Tip Fees	4,900	4,835	65
Digester Cleaning	12,600	-	12,600
Plant Supplies	3,000	870	2,130
Plant Chemicals	24,500	20,348	4,152
Plant Repair	-	4,058	(4,058)
Equipment Fuel	1,000	104	896
Equipment Repair & Maintenance	7,000	5,213	1,787
Toxicity	-	4,200	(4,200)
Non Capitalized Assets	-	28	(28)
Miscellaneous	-	1,362	(1,362)
Total Lando Plant Expenses	277,500	285,944	(8,444)
Rocky Creek Plant Expenses:			
Salaries	184,000	230,936	(46,936)
FICA Taxes	15,000	13,204	1,796
Retirement	26,000	59,738	(33,738)
Health Insurance	19,000	51,488	(32,488)
Retiree Insurance	-	1,492	(1,492)
Workman's Compensation	-	1,581	(1,581)
Uniforms & Shoes	3,000	1,957	1,043
Dues	1,000	35	965
Travel and Training	2,600	4,395	(1,795)
Safety Training	1,500	2,796	(1,296)
Utilities	79,100	74,365	4,735
Vehicle Maintenance	2,200	2,461	(261)
Legal Services	4,000	1,870	2,130
Engineering Services	10,000	-	10,000
Property Maintenance	5,600	3,629	1,971
Contract Service	33,700	19,806	13,894
Outside Lab Testing	20,000	18,125	1,875
Permits	3,185	6,869	(3,684)
Lab Supplies & Chemicals	4,800	1,096	3,704
Sludge Tip Fees	10,500	10,186	314
Digester Cleaning	27,000	-	27,000
Supplies	6,900	11,698	(4,798)
Plant Chemicals	75,000	37,844	37,156
Plant Repair	5,000	12,184	(7,184)
Equipment Fuel	3,000	4,649	(1,649)
Equipment Repair	10,500	6,543	3,957

(continued)

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2018

	Budget	Actual	Variance
Toxicity	150,000	51,528	98,472
Non Capitalized Assets	1,250	16,964	(15,714)
Miscellaneous	-	1,382	(1,382)
Total Rocky Creek Plant Expenses	$ 703,835	648,821	$ 55,014
Sandy River Plant Expenses:			
Salaries	200,000	181,450	18,550
FICA Taxes	15,300	12,629	2,671
Retirement	27,300	49,460	(22,160)
Health Insurance	19,000	31,819	(12,819)
Uniforms & Shoes	2,500	1,735	765
Workman's Compensation	-	1,186	(1,186)
Dues	1,000	35	965
Travel and Training	3,500	2,425	1,075
Safety Training	2,000	2,079	(79)
Utilities	109,700	96,996	12,704
Vehicle Maintenance	4,300	764	3,536
Legal Services	4,000	255	3,745
Engineering Services	5,000	-	5,000
Property Maintenance	7,500	5,252	2,248
Contract Service	35,000	15,698	19,302
Outside Lab Testing	15,000	21,550	(6,550)
Permits	2,330	20,702	(18,372)
Lab Supplies & Chemicals	5,000	836	4,164
Sludge Tip Fees	15,600	12,214	3,386
Digester Cleaning	39,200	-	39,200
Supplies	2,500	1,344	1,156
Plant Chemicals	31,000	40,272	(9,272)
Plant Repair	5,000	6,308	(1,308)
Equipment Fuel	2,000	2,347	(347)
Equipment Repair	6,000	3,942	2,058
Road Repair	500	52	448
Toxicity	-	3,178	(3,178)
Non Capitalized Assets	1,250	3,649	(2,399)
Miscellaneous	-	1,493	(1,493)
Total Sandy River Plant Expenses	$ 561,480	519,670	$ 41,810
Pretreatment Expenses:			
Salaries	60,000	75,435	(15,435)
FICA Taxes	5,000	4,811	189
Retirement	8,500	17,245	(8,745)
Health Insurance	9,000	14,098	(5,098)
Workman's Compensation	-	113	(113)
Tuition Reimbursement	2,500	-	2,500

(continued)

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2018

	Budget	Actual	Variance
Internship Program	7,100	-	7,100
Dues	750	150	600
Travel and Training	6,500	3,144	3,356
Safety Training	-	171	(171)
Utilities	2,000	1,113	887
Legal Services	7,500	6,495	1,005
Contract Services	-	2,296	(2,296)
Engineering Services	45,000	56,700	(11,700)
Supplies	5,000	982	4,018
Equipment Fuel	2,500	2,070	430
Equipment Repair	4,700	268	4,432
Non Capitalized Assets	1,500	74	1,426
Miscellaneous	5,200	1,894	3,306
Total Pretreatment Expenses	$ 172,750	187,059	$ (14,309)
Total Operating Expenses	**$ 3,760,640**	**3,771,481**	**$ (10,841)**

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COMPLIANCE SECTION

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantor's Number	Total Federal Expenditures
U.S. Economic Development Administration			
Public Works Program	11.300	04-01-7150	$ 765,463
Department of Homeland Security			
Federal Emergency Management Agency	97039		258,751
Grand Total			**$ 1,024,214**

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

A. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal award programs of the Chester Sewer District (the "District") for the year ended June 30, 2018. Expenditures for federal financial assistance awarded directly from the federal agencies, as well as those passed through other government agencies, are included on the Schedule.

B. BASIS OF ACCOUNTING

The accompanying Schedule is presented using the modified accrual basis of accounting, which is described in the notes to the District's financial statements.

C. RELATIONSHIP TO THE FINANCIAL STATEMENTS

Federal award expenditures are reported in the District's financial statements as expenses in the Proprietary funds for all federal programs.

D. MATCHING COSTS

Matching costs, i.e., the non-federal share of certain program costs, are not included in the accompanying Schedule.

E. SUB-RECIPIENTS

There were no federal expenditures provided to sub-recipients presented in the accompanying Schedule.

F. INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

LOVE BAILEY

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Commissioners
Chester Sewer District
Chester, 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 enterprise fund of the District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Love Bailey & Associates, LLC

Love Bailey & Associates, LLC
Laurens, South Carolina
October 16, 2018

LOVE BAILEY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Commissioners
Chester Sewer District
Chester, South Carolina

Report on Compliance for Each Major Federal Program

We have audited the Chester Sewer District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control over Compliance

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Love Bailey & Associates, LLC

Love Bailey & Associates, LLC
Laurens, South Carolina
October 16, 2018

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:			
Material weakness(es) identified?	____ Yes	X No	
Significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	X None Reported	
Noncompliance material to financial statements noted?	____ Yes	X No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	____ Yes	X No	
Significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	X None Reported	

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (Uniform Guidance)?	____ Yes	X No

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
11.300	Public Works Program

Dollar threshold used to distinguish between type A and type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X Yes	____ No

CHESTER SEWER DISTRICT
RICHBURG, SOUTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2018

NONE NOTED