

**PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND**

FINANCIAL STATEMENTS
September 30, 2018 and 2017

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND

FINANCIAL STATEMENTS
September 30, 2018 and 2017

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED).....	4
FINANCIAL STATEMENTS	
STATEMENTS OF FUND NET POSITION	9
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION	11
STATEMENTS OF CASH FLOWS.....	12
NOTES TO FINANCIAL STATEMENTS	14
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULES OF SEWER SYSTEM PROPORTIONATE SHARE OF COUNTY'S TOTAL OPEB LIABILITY - LAST TEN FISCAL YEARS.....	39
SCHEDULES OF SEWER SYSTEM PROPORTIONATE SHARE OF THE BOARD'S NET PENSION LIABILITY - LAST TEN FISCAL YEARS	40
SCHEDULES OF SEWER SYSTEM CONTRIBUTIONS – LAST TEN FISCAL YEARS	41
SUPPLEMENTARY INFORMATION (UNAUDITED)	
SCHEDULE OF INSURANCE COVERAGE (UNAUDITED).....	42
CUSTOMER STATISTICS (UNAUDITED).....	42
HISTORICAL REVENUES AND EXPENSES AND DEBT SERVICE COVERAGE – AS DEFINED BY BOND REQUIREMENTS (UNAUDITED).....	43
OTHER REPORTS	
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 <i>GOVERNMENT AUDITING</i> <i>STANDARDS</i>	44
INDEPENDENT AUDITOR'S REPORT ON BOND COMPLIANCE	46

INDEPENDENT AUDITOR'S REPORT

The Members of the Board of County Commissioners
Pinellas County, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Sewer System Enterprise Fund (System) of Pinellas County, Florida (County), as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the System's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System of the County, as of September 30, 2018 and 2017, and the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Notes 1, 9, and 12 to the financial statements, in June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45, *Accounting and financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses/expenditures as well as identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. Note disclosures and required supplementary information requirements about OPEB are also addressed. Beginning net position was restated as part of the implementation of this standard. Our opinions are not modified with respect to this matter.

As discussed in Note 1, the financial statements present only the System and do not purport to, and do not, present fairly the financial position of the County, as of September 30, 2018 and 2017, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Required Supplementary Information, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's financial statements. The schedule of insurance coverage, customer statistics and historical revenues and expenses and debt service coverage – as defined by bond requirements are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of insurance coverage, customer statistics and historical revenues and expenses and debt service coverage – as defined by bond requirements have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2019 on our consideration of the System'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 System's internal control over financial reporting and compliance.



Crowe LLP

Tampa, Florida
April 24, 2019

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2018 and 2017

This section of the Sewer System Enterprise Fund's (Sewer System) financial report represents management's analysis of the Sewer System's financial performance during the fiscal years ended on September 30, 2018 and 2017. Please read the information presented here in conjunction with the financial statements and notes to financial statements, which follow this section.

2018 FINANCIAL HIGHLIGHTS

- The Sewer System's net position (excess of assets and deferred outflows over liabilities and deferred inflows) increased by \$8.7 million over the prior year. The Sewer System's beginning net position was restated to reflect the recognition of other post employment benefits (OPEB) liability and the related deferred outflows totaling \$14.1 as explained in Note 12.
- Retail sewer service charges decreased by \$.2 million or 0.3% as compared to the previous year.
- Wholesale sewage treatment charges increased by \$2.1 million or 32.1% from the previous year, mostly due to upgraded meter installations in FY18.
- Retail reclaimed water service charges increased by \$.2 million or 4% over the previous year, mostly due to the multi-year rate increase approved by the Board of County Commissioners on May 19, 2015.
- Capital assets increased by \$10.4 million or 1.6% due mainly to improvements made to assets other than buildings.

2017 FINANCIAL HIGHLIGHTS

- The Sewer System's net position (excess of assets and deferred outflows over liabilities and deferred inflows) increased by \$11.3 million over the prior year.
- Retail sewer service charges increased by \$1.1 million or 1.7% as compared to the previous year, mostly due to customer growth and the annual rate increase of 1.0%.
- Wholesale sewage treatment charges decreased by \$.9 million or 12.2% from the previous year, mostly due to sewer system improvements made in Pinellas Park.
- Retail reclaimed water service charges increased by \$.4 million or 7.4% over the previous year, mostly due to the multi-year rate increase approved by the Board of County Commissioners on May 19, 2015.
- Capital assets increased by \$5 million due mainly to improvements made to assets other than buildings.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Pinellas County Sewer System's financial statements contain three components: (1) management's discussion and analysis, (2) financial statements and notes thereto, and (3) supplemental information.

The Sewer System is a "business-type activity" in that fees and user charges from customers finance the Sewer System's expenses. No Pinellas County tax funds are used to support the Sewer System.

The Statement of Net Position presents information on assets, deferred outflows of resources, liabilities, and deferred inflows of resources and the resulting net position using accounting methods similar to those used by private sector companies. This is considered one way to measure the Sewer System's financial health.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2018 and 2017

Notes to Financial Statements

The notes provide additional information that is essential in order for the reader to obtain a full understanding of the information presented in the financial statements.

Sewer System Financial Analysis

The comparison of net position from year to year serves to measure a government's financial position.

Sewer System's Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current assets and other assets	\$ 80,672,548	\$ 90,520,830	\$ 89,623,973
Capital assets	<u>629,530,212</u>	<u>619,080,478</u>	<u>613,255,973</u>
Total assets	<u>710,202,760</u>	<u>709,601,308</u>	<u>702,879,946</u>
Deferred outflows of resources			
Total deferred outflows of resources	<u>8,478,549</u>	<u>-</u>	<u>8,067,501</u>
Liabilities			
Current liabilities	12,529,840	12,485,434	13,518,393
Long-term liabilities	<u>169,505,069</u>	<u>164,831,751</u>	<u>172,330,098</u>
Total liabilities	<u>182,034,909</u>	<u>177,317,185</u>	<u>185,848,491</u>
Deferred inflows of resources			
Total deferred inflows of resources	<u>3,287,206</u>	<u>1,667,455</u>	<u>1,599,710</u>
Net position:			
Net investment in capital assets	493,560,859	474,479,366	458,679,502
Restricted for debt service	322,435	1,153,635	1,201,104
Unrestricted	<u>39,475,900</u>	<u>63,134,572</u>	<u>63,618,640</u>
Total net position	<u>\$ 533,359,194</u>	<u>\$ 538,767,573</u>	<u>\$ 523,499,246</u>

Net investment in capital assets (e.g., land, buildings, machinery and equipment, less related debt used in acquiring or constructing these assets), represented approximately 92.5% and 88.1% of the Sewer System's total net position at September 30, 2018 and 2017, respectively. Capital assets are used to provide services to users and customers of the Sewer System and therefore are not available for future spending.

Unrestricted net position represents 7.4% and 11.7% of the total net position at September 30, 2018 and 2017, respectively, and may be used to meet daily obligations of the Sewer System without restriction.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2018 and 2017

Summary of Changes in Net Position

The following schedule compares the revenues and expenses for the Sewer System for the current and two previous fiscal years.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenues:			
Retail sewer service charges	\$ 61,666,009	\$ 61,844,732	\$ 60,781,617
Wholesale sewage treatment charges	8,633,097	6,534,297	7,439,175
Retail reclaimed water service charges	5,315,723	5,106,950	4,755,631
Wholesale reclaimed water service charges	333,362	371,575	272,314
Other	1,268,535	5,142,161	699,833
Total revenues	<u>77,216,726</u>	<u>78,999,715</u>	<u>73,948,570</u>
Expenses:			
Personal services	17,066,132	17,021,193	15,472,876
Contractual services, utilities and supplies	27,541,063	25,639,368	24,840,462
Depreciation	<u>20,113,219</u>	<u>19,255,999</u>	<u>18,629,839</u>
Total operating expenses	<u>64,720,414</u>	<u>61,916,560</u>	<u>58,943,177</u>
Operating income	12,496,312	17,083,155	15,005,393
Nonoperating expenses	(4,421,978)	(3,345,145)	(4,609,065)
Capital contributions	<u>634,400</u>	<u>1,530,317</u>	<u>874,538</u>
Increase (decrease) in net position	8,708,734	15,268,327	11,270,866
Net position - beginning, as restated (see note 12)	<u>524,650,460</u>	<u>523,499,246</u>	<u>512,228,380</u>
Net position - ending	<u>\$ 533,359,194</u>	<u>\$ 538,767,573</u>	<u>\$ 523,499,246</u>

Current and Prior Year Impacts

Revenues:

During fiscal 2018 the operating revenues of the Sewer System decreased by \$1.8 million attributable mostly to 1) wholesale treatment charges increased by \$2.1 million or 32.1% due to the upgraded meter installation in Pinellas Park and 2) other revenues decreased \$3.9 million over the prior fiscal year as a result of the one-time reallocation of late fees from the Water System Fund in fiscal 2017.

During fiscal 2017 operating revenues increased by \$5 million or 6.8% attributable mostly to 1) retail sewer service charges increased by \$1.1 million or 1.7%, mainly due to customer growth and the annual rate increase of 1.0%, 2) \$.9 million or 12.1% decrease in wholesale sewage treatment charges due to sewer system improvements made in Pinellas Park, 3) retail reclaimed water service charges increased by \$.4 million or 7.4%, mostly due to the annual rate increase approved by the Board of County Commissioners on May 19, 2015 and 4) other revenues increased by \$4.4 million as a result of the one-time reallocation of late fees from the water system.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2018 and 2017

Expenses:

During fiscal year 2018, operating expenses excluding depreciation increased overall by \$1.9 million over fiscal year 2017 or 4.6%, primarily due to an increase in wages and cost of benefits provided, internal charges related to information technology, and the cost of studies performed to determine the cause of inflow and infiltration into the sewer system and system master plans. These increases were partially offset by a decrease in the contractual services related to grit removal, as well as in repair and maintenance of sewer lines. During fiscal year 2017, operating expenses increased by \$2.3 million or 5% primarily due to increases in wages and benefits and the cost of studies to determine the cause of inflow and infiltration into the system.

	<u>September 30</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Administrative	\$ 2,961,419	\$ 2,157,021	\$ 2,863,593
Collection System	9,950,460	10,175,180	6,680,083
Customer Service	3,828,819	3,628,882	3,642,279
Treatment and Disposal System	<u>27,866,497</u>	<u>26,699,478</u>	<u>27,127,383</u>
Total operating expenses, excluding depreciation	<u>\$ 44,607,195</u>	<u>\$ 42,660,561</u>	<u>\$ 40,313,338</u>

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2018 and 2017 the Sewer System had \$629.5 million and \$619.1 million, respectively, invested, net of accumulated depreciation, in a variety of capital assets as reflected in the following schedule, which represents a net increase (additions, deductions and depreciation) of \$10.4 million or 1.7%, from 2017 and a net increase of \$5.8 million or less than 1.0%, from 2016.

	<u>September 30</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Land	\$ 5,140,419	\$ 5,140,419	\$ 5,106,619
Buildings	19,765,174	18,823,203	18,737,085
Improvements	912,134,009	885,140,165	858,149,131
Equipment	16,744,254	15,706,968	16,412,578
Intangible assets	2,348,134	2,150,004	2,086,940
Construction in progress	<u>15,803,458</u>	<u>14,856,778</u>	<u>18,234,315</u>
	<u>971,935,448</u>	<u>941,817,537</u>	<u>918,726,668</u>
Less accumulated depreciation	<u>(342,405,236)</u>	<u>(322,737,059)</u>	<u>(305,470,695)</u>
Total	<u>\$ 629,530,212</u>	<u>\$ 619,080,478</u>	<u>\$ 613,255,973</u>

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2018 and 2017

Additional information regarding the Sewer System's capital assets can be found in Note 4 to the financial statements. The fiscal 2018 and 2017 major additions include renewal and replacement to the network of existing sanitary sewerage collection, transmission and pumping facilities throughout the system.

Debt Administration

The Sewer System has the following bonded debt:

	September 30		
	2018	2017	2016
Revenue Refunding Bonds, Series 2016	\$ 11,295,000	\$ 13,031,000	\$ 14,733,000
Revenue Refunding Bonds, Series 2012	49,775,000	52,310,000	54,770,000
Revenue Refunding Bonds, Series 2011	-	-	3,545,000
Revenue Bonds, Series 2008 A	38,175,000	38,640,000	39,085,000
Revenue Refunding Bonds, Series 2008 B-1	28,000,000	32,025,000	32,110,000
Revenue Refunding Bonds, Series 2006	-	-	1,495,000
Revenue Bonds, Series 2003	5,215,000	5,215,000	5,215,000
Total bonded debt outstanding	\$ 132,460,000	\$ 141,221,000	\$ 150,953,000

The Sewer System's net revenue is pledged for the payment of the outstanding principal and interest on the bonds. Additional information regarding the Sewer System's long-term debt can be found in Note 5 to the financial statements.

Economic Factors and Next Year's Budget and Rates

In preparation of the fiscal 2019 budget, it is anticipated that the current retail sewer service charges and wholesale sewage treatment charges will continue to cover the operating, debt, capital expense and reserve balances. The Board authorized increases in various rates and users fees effective in October, 2015, including wholesale and retail sewer rates of 1.0 percent per year, beginning in fiscal year 2017 through fiscal year 2019, and increases to the monthly rate for reclaimed water rates of \$1 per year for unmetered service and 5 cents per year for metered service through fiscal year 2019. A comprehensive rate study is being conducted for future years.

Financial Contact

This financial report is designed to provide a general overview of the Sewer System's finances for interested parties. If you have questions about this report or need additional information, contact Pinellas County Office of Management and Budget, 14 S. Ft. Harrison Avenue, Clearwater, Florida 33756.

FINANCIAL STATEMENTS

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
STATEMENTS OF FUND NET POSITION
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash	\$ 11,927,965	\$ 14,993,282
Cash with fiscal agent	3,823,619	3,774,319
Investments	53,243,794	59,694,619
Receivables:		
Accounts, net	8,169,334	8,295,703
Assessments	660	660
Accrued interest	195,638	140,174
Due from other governments	2,903,144	3,317,292
Inventory	310,213	160,636
Prepaid Items	98,181	104,791
Total current assets	<u>80,672,548</u>	<u>90,481,476</u>
Capital assets:		
Land	5,140,419	5,140,419
Buildings	19,765,174	18,823,203
Improvements other than buildings	912,134,009	885,140,165
Equipment	16,744,254	15,706,968
Intangible assets	2,348,134	2,150,004
	956,131,990	926,960,759
Less accumulated depreciation	<u>(342,405,236)</u>	<u>(322,737,059)</u>
	613,726,756	604,223,700
Construction in progress	15,803,458	14,856,778
Total capital assets, net	<u>629,530,212</u>	<u>619,080,478</u>
Other noncurrent assets:		
Prepaid bond insurance	-	39,354
Total other noncurrent assets	-	39,354
Total assets	<u>710,202,760</u>	<u>709,601,308</u>
Deferred Outflows of Resources		
Losses on debt refunding	3,525,093	3,888,424
Pension-related deferred outflows	4,005,342	4,262,481
OPEB-related deferred outflows	948,114	-
Total deferred outflows of resources	<u>8,478,549</u>	<u>8,150,905</u>
Total assets and deferred outflows of resources	<u>\$ 718,681,309</u>	<u>\$ 717,752,213</u>

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
STATEMENTS OF FUND NET POSITION
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Liabilities		
Current liabilities:		
Current maturities of revenue bonds payable	\$ 2,635,000	\$ 2,535,000
Vouchers payable	6,112,579	6,601,997
Contracts payable	740,149	253,361
Due to other governments	121,142	215,438
Accrued interest payable	1,188,619	1,239,319
Accrued liabilities	657,940	647,237
Compensated absences	1,074,411	993,082
Total current liabilities	<u>12,529,840</u>	<u>12,485,434</u>
Long-term liabilities:		
Revenue bonds payable, plus unamortized premium and less current maturities	132,974,609	142,267,330
Long-term compensated absences	177,816	234,460
Other post employment benefit obligation	25,553,703	11,501,258
Pension liability	10,798,941	10,828,703
Total non-current liabilities	<u>169,505,069</u>	<u>164,831,751</u>
Total liabilities	<u>182,034,909</u>	<u>177,317,185</u>
Deferred inflows of resources		
Pension-related deferred inflows	1,980,648	1,667,455
OPEB-related deferred inflows	1,306,558	-
Total liabilities and deferred inflows or resources	<u>185,322,115</u>	<u>178,984,640</u>
Net position		
Net investment in capital assets	493,560,859	474,479,366
Restricted for debt service	322,435	1,153,635
Unrestricted	<u>39,475,900</u>	<u>63,134,572</u>
Total net position	<u>\$ 533,359,194</u>	<u>\$ 538,767,573</u>

See accompanying notes to the financial statements.

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Retail sewer service charges	\$ 61,666,009	\$ 61,844,732
Wholesale sewage treatment charges	8,633,097	6,534,297
Retail reclaimed water service charges	5,315,723	5,106,950
Wholesale reclaimed water service charges	333,362	371,575
Other	<u>1,268,535</u>	<u>5,142,161</u>
Total operating revenues	<u>77,216,726</u>	<u>78,999,715</u>
Operating expenses:		
Personal services	17,066,132	17,021,193
Contractual services	8,101,181	7,597,066
Heat, light, and power	4,200,471	3,789,408
Supplies	5,069,344	4,983,180
Other operating expenses	10,170,067	9,269,714
Depreciation expense	<u>20,113,219</u>	<u>19,255,999</u>
Total operating expenses	<u>64,720,414</u>	<u>61,916,560</u>
Operating income	12,496,312	17,083,155
Nonoperating revenues (expenses):		
Interest income	852,200	557,298
Interest expense, net of amounts capitalized	(5,739,293)	(5,343,503)
Miscellaneous revenue	<u>465,115</u>	<u>1,441,060</u>
Net nonoperating revenues (expenses)	<u>(4,421,978)</u>	<u>(3,345,145)</u>
Income before capital contributions and special items	8,074,334	13,738,010
Capital contributions	<u>634,400</u>	<u>1,530,317</u>
Change in net position	8,708,734	15,268,327
Net position beginning	<u>524,650,460</u>	<u>523,499,246</u>
Net position ending	<u>\$ 533,359,194</u>	<u>\$ 538,767,573</u>

See accompanying notes to the financial statements.

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
Year Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Receipts from customers	\$ 77,754,977	\$ 77,582,398
Payments to suppliers	(27,976,314)	(25,185,043)
Payments to employees	(16,196,399)	(16,157,741)
Cash received from other sources	<u>479,112</u>	<u>1,171,821</u>
Net cash provided by operating activities	<u>34,061,376</u>	<u>37,411,435</u>
Cash flows from capital financing activities		
Acquisition and construction of capital assets	(30,403,999)	(24,551,409)
Interest paid on revenue bonds payable	(5,819,030)	(9,732,000)
Principal paid on revenue bonds payable	(8,761,000)	(6,064,899)
Proceeds from sale of capital assets	24,675	323,084
Capital contributions	<u>634,400</u>	<u>1,361,442</u>
Net cash used in capital financing activities	<u>(44,324,954)</u>	<u>(38,663,782)</u>
Cash flows from investing activities		
Withdrawals from investment pool	35,309,554	114,165,831
Deposits to investment pool	(28,858,729)	(119,680,435)
Interest received on investments	<u>796,736</u>	<u>737,979</u>
Net cash provided by investing activities	<u>7,247,561</u>	<u>(4,776,625)</u>
Net change in cash and cash equivalents	(3,016,017)	(6,028,972)
Cash and cash equivalents at beginning of year	<u>18,767,601</u>	<u>24,796,573</u>
Cash and cash equivalents at end of year	<u>\$ 15,751,584</u>	<u>\$ 18,767,601</u>

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
STATEMENTS OF CASH FLOWS
Year Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income	\$ 12,496,312	\$ 2,966,042
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	20,113,219	19,255,999
Provision for bad debts	(37,722)	53,390
Miscellaneous nonoperating revenues	479,112	1,171,821
Changes in operating assets and liabilities:		
Accounts and assessments receivable	164,091	(628,631)
Inventory	(149,577)	
Due from other funds	-	(160,636)
Prepaid Expenses	6,610	(842,077)
Due from other governments	414,148	(16,779)
Pension-related deferred outflows	257,139	(614,041)
Vouchers payable and contracts payable – retainage	(200,255)	576,447
Due to other County funds	-	(21,038)
Due to other governments	(94,295)	76,332
Accrued liabilities and other liabilities	35,388	139,793
Other postemployment benefits	(996,370)	15,964,142
Net pension liability	(29,763)	354,627
Pension-related deferred inflows	313,194	67,745
OPEB-related deferred outflows	(16,413)	(931,701)
OPEB-related deferred inflows	<u>1,306,558</u>	<u>-</u>
Total adjustments	<u>21,565,064</u>	<u>34,445,393</u>
Net cash provided by operating activities	<u>\$ 34,061,376</u>	<u>\$ 37,411,435</u>
Noncash capital and financing activities:		
Decrease in fair value of investments	\$ (245,635)	\$ (158,496)
Equipment transferred from other County funds	-	3,687,208
Purchases of capital assets on account	3,884,837	-

See accompanying notes to the financial statements.

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Reporting Entity: The Sewer System Enterprise Fund of Pinellas County, Florida (Sewer System) accounts for all activities associated with the provision of sewer and related services to customers within and around Pinellas County. The accompanying financial statements include only the financial activities of the Sewer System. The Sewer System's operations are accounted for as an enterprise fund of the Pinellas County, Florida, Board of County Commissioners (the Board). Enterprise funds are used to account for operations (i) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (ii) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement Focus and Basis of Accounting: The Sewer System Enterprise Fund is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred. In accordance with Governmental Accounting Standards Board (GASB) Statement Number 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Sewer System applies all applicable GASB pronouncements currently in effect.

Cash, Cash Equivalents and Investments: The Sewer System considers all cash on hand, demand deposits, cash with fiscal agent, revolving funds and short-term investments, including restricted assets with original maturities of three months or less from acquisition date to be cash and cash equivalents. Bank deposits and the majority of investments are pooled for investment purposes. Earnings from pooled activity are allocated based on the Sewer System's average daily equity balance. Investments are stated at fair value. For investments held by a specific fund, all earnings are applied to the specific fund.

Due From Other Governments: Due from other governments primarily includes amounts due from wholesale customers (cities within Pinellas County) for wastewater treatment charges.

Capital Assets: Capital assets are stated at cost and are items with individual costs of \$1,000 or more and useful lives greater than one year. Contributed collection systems and equipment are recorded at acquisition value. Depreciation is provided using the straight-line method over the estimated useful lives of the assets ranging from five to 20 years for equipment, 35 to 50 years for buildings and improvements other than buildings, and 5 to 20 years for intangible assets.

Compensated Absences: Employees of the Sewer System are generally allowed to be paid upon termination, accumulated vacation up to a maximum of three years leave. Prior to December 24, 1994, sick leave was accumulated with no maximum. Effective December 24, 1994, employees no longer accrue sick leave. Upon termination, the employee is paid for up to one-half of accumulated sick leave, depending on length of service. Compensated absences are accrued when earned.

Bond Discounts, Premiums and Issue Costs: Bond discounts, premiums and prepaid insurance costs are capitalized and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of applicable discounts and premiums. Prepaid insurance costs are reported as other noncurrent assets and all other issuance costs are expensed as incurred.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (Continued)

Deferred Outflows of Resources: Deferred outflows of resources represent a consumption of net position that applies to a future period and pension contributions subsequent to the measurement date and therefore will not be recognized as outflows of resources (expense) until that time. Losses on debt refunding result from the difference between the reacquisition price and the net carrying amount of the old debt and are capitalized and amortized over the shorter of the life of the new debt or the remaining life of the old debt. Unamortized amounts are reported as deferred outflows of resources and amortized and reported as a component of interest expense. The deferred outflows of resources in the Statement of Net Position represents the difference between expected and actual experience, changes in assumptions, the net difference between projected and actual earnings on pension plan investments, changes in the proportion and differences between the Sewer System's contributions and proportionate share of contributions relating to pension and other post employment benefit (OPEB) plans.

Deferred Inflows of Resources: Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. This section includes deferred inflows of resources representing the difference between expected and actual experience, changes in assumptions, the net difference between projected and actual earnings on plan investments, changes in the proportion and differences between the Sewer System's contributions and proportionate share of contributions relating to pension and OPEB plans.

Pensions: For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) and additions to/deductions from FRS's and HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and HIS plans. For this purpose, plan contributions are recognized when due and payable in accordance with plan terms.

Operating Revenues and Expenses: The Sewer System distinguishes 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 the Sewer System's principal ongoing operations. The principal operating revenues for the Sewer System are charges to customers for sales and services. Operating expenses for the Sewer System include cost of sales and services, administrative costs, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (Continued)

Implementation of New Pronouncements: For the fiscal year ended September 30, 2018, the Sewer System implemented the following GASB pronouncements:

In June, 2015, the GASB issued Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for OPEB plans. For defined benefit OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement enhances accountability and transparency through revised and new note disclosures (see Note 9 Other Postemployment Benefit (OPEB) Plans) and Required Supplementary Information (RSI). The provisions of this statement are effective for fiscal years beginning after June 15, 2017. See Note 12 for the effect of the implementation. Valuation of the OPEB liability under GASB 75 was not available for the prior fiscal years, therefore, fiscal year 2017 was not restated.

In May, 2017, the GASB issued Statement Number 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The implementation of this pronouncement had no financial or reporting impact on the Sewer System.

In June, 2018, the GASB issued Statement Number 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement modifies financial accounting and reporting by requiring interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund, as was previously reported. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019, however the Board has chosen an early implementation for reporting periods after September 30, 2017.

Use of Estimates: The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management of the Sewer System to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 2 - DEPOSITS AND INVESTMENTS

At September 30, 2018 and 2017, the Sewer System's cash deposits totaled \$15,751,584 and \$18,767,601, respectively. At September 30, 2018, the Sewer System had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>			<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1 to 3</u>	<u>More Than 3</u>	
Florida Local Government Investment Trust Day to Day Fund	\$ 3,068,038	\$ 3,068,038	\$ -	\$ -	AAAm
Florida Cooperative Liquid Assets Securities System (FLCLASS)	8,923,908	8,923,908	-	-	AAAm
Federal Agencies and Instrumentalities	<u>41,251,848</u>	<u>17,293,229</u>	<u>23,958,619</u>	<u>-</u>	AA+/Aaa
	<u>\$ 53,243,794</u>	<u>\$ 29,285,175</u>	<u>\$ 23,958,619</u>	<u>\$ -</u>	

At September 30, 2017, the Sewer System had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities in Years</u>			<u>Credit Rating</u>
		<u>Less Than 1</u>	<u>1 to 3</u>	<u>More Than 3</u>	
Florida Local Government Investment Trust Day to Day Fund	\$ 3,110,466	\$ 3,110,466	\$ -	\$ -	AAAm
Florida Cooperative Liquid Assets Securities System (FLCLASS)	6,599,920	6,599,920	-	-	AAAm
Federal Agencies and Instrumentalities	<u>49,984,233</u>	<u>31,394,662</u>	<u>18,589,571</u>	<u>-</u>	AA+/Aaa
	<u>\$ 59,694,619</u>	<u>\$ 41,105,048</u>	<u>\$ 18,589,571</u>	<u>\$ -</u>	

- (a) – Standard & Poor's rating short-term rating.
- (b) – Standard & Poor's / Moody's long-term rating.

Investment Policy: Cash in excess of operating requirements of the Sewer System is pooled and invested by the Board in various investments as described below.

The investment program of the Board is established in accordance with the investment policy, pertinent bond resolutions, Sections 125 and 218.415, *Florida Statutes*, and Pinellas County Code Section 2-144 and Resolution 17-33.

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The Board's Investment Policy is designed to ensure the prudent management of funds, and the availability of operating and capital funds when required, while earning a competitive return within the policy framework. The primary objectives, in order of priority, of investment activity shall be safety, liquidity, and yield.

The Board investment policy, including the Sewer System, authorizes the following investments:

- Florida Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969, as provided in Section 163.01, Florida Statutes;
- Securities and Exchange Commission registered money market funds;
- Savings accounts and certificates of deposit in state-certified qualified public depositories, as defined in Section 280.02, Florida Statutes;
- Direct obligations of the U.S. Treasury;
- Obligations of Federal agencies and instrumentalities;
- Commercial paper
- Repurchase agreements;
- Asset-backed corporate notes.

Credit Risk: The Board's investment policy limits credit risk by restricting investments to the list provided above. Money market funds must maintain the highest quality rating from a nationally recognized statistical rating organization (NRSRO). Commercial paper must have a credit quality rated A1, P1 from a NRSRO.

Custodial Credit Risk – Deposits: According to Chapter 280, *Florida Statutes*, the Sewer System monies must be deposited with financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida. In accordance with this statute, qualified public depositories are required to pledge eligible collateral in the County's name, in varying percentages. Any losses to public depositories are covered by applicable deposit insurance, by the sale of pledged securities and, if necessary, by assessments against other qualified public depositories. At fiscal year end, all deposits were covered by Federal depository insurance or by pledged collateral.

Custodial Credit Risk – Investments: The Board's investment policy requires execution of a third-party custodial safekeeping agreement with a commercial bank's trust department, which is separately chartered by the United States Government or the State of Florida. All securities purchased and collateral obtained by the Board shall be properly designated as an asset of the Board and held in safekeeping by the trust department.

Concentration of Credit Risk - Investments: The investment policy provides guidelines on maximum limits for security diversification with the option to further restrict or increase investment percentages from time to time based on market conditions, with bond covenant requirements excluded from the composition calculation. The portfolio was maintained within those guidelines. The portion of the Sewer System's portfolio invested in Federal instrumentalities as of September 30, 2018 and 2017, were as follows:

<u>Issuer</u>	<u>Percent of Portfolio</u>	
	<u>2018</u>	<u>2017</u>
Federal National Mortgage Association	10%	11%
Federal Farm Credit Bank	23	20
Federal Home Loan Bank	31	15
Federal Home Loan Mortgage Corporation	13	31

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk - Investments: Section 218.415, *Florida Statutes*, requires the Board's investment policy be structured to place the highest priority on the safety of principal and liquidity of funds. Investment of construction funds, bond fund reserves, and other nonoperating funds shall have a term appropriate to the need of the funds, but in no event shall the maturities exceed five years. Reserve funds may be invested up to ten years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds. The weighted average duration of the portfolio shall not exceed three years. No surplus funds may be invested in a derivative investment, as defined in Section 218.45(5), *Florida Statutes*. The FLGIT and FLCLASS are external investment pools as defined in GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Fair Value Measurements

In accordance with GASB Statement 72, *Fair Value Measurement and Application*, the Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets;
- Level 2 inputs are significant other observable inputs;
- Level 3 inputs are significant unobservable inputs.

The Sewer System has the following recurring fair value measurements as of September 30, 2018:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assts (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by fair value level</u>	<u>Total</u>			
Debt securities				
Direct obligations of the U.S. Treasury	\$ 1,399,423	\$ 1,399,423	\$ -	\$ -
Federal Agencies and Instrumentalities	<u>39,852,425</u>	<u>-</u>	<u>39,852,425</u>	<u>-</u>
Total investments by fair value level	41,251,848	<u>\$ 1,399,423</u>	<u>\$ 39,852,425</u>	<u>\$ -</u>
<u>Investments measured at Net Asst Value (Nav)</u>				
FLGIT	3,068,038			
FLCLASS	<u>8,923,908</u>			
Total investments measured at fair value	<u>\$ 53,243,794</u>			

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The Sewer System has the following recurring fair value measurements as of September 30, 2017:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assts (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by fair value level</u>	<u>Total</u>			
Debt securities				
Direct obligations of the U.S. Treasury	\$ 3,377,857	\$ 3,377,857	\$ -	\$ -
Federal Agencies and Instrumentalities	46,606,376	-	46,606,376	-
Total investments by fair value level	49,984,233	<u>\$ 3,377,857</u>	<u>\$ 46,606,376</u>	<u>\$ -</u>
 <u>Investments measured at Net Asst Value (Nav)</u>				
FLGIT	3,110,466			
FLCLASS	6,599,920			
Total investments measured at fair value	<u>\$ 59,694,619</u>			

The categorization of the investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

U.S. Treasury securities classified as Level 1 of the fair value hierarchy are valued using quoted prices at September 30 (or the most recent market close date if the market are closed on September 30) in active markets from the custodian bank's primary external pricing vendors.

U.S. agencies and instrumentalities classifies as Level 2 are evaluated prices from the custodian bank's external pricing vendors. The pricing methodology often involves the use of evaluation models such as matrix pricing, which is based on the securities' relationship to benchmark quoted prices.

Florida Local Government Investment Trust (FLGIT) is an external local government investment pool created by interlocal agreement under F.S. 163.01. It was sponsored by the Florida Court Clerks and Comptrollers and the Florida Association of Counties in 1991. The pool is supervised by an appointed Board of Trustees comprised of eligible participants of the program. The Board acts as the liaison between the participants, the custodian and the investment advisor. The FLGIT Day to Day Fund is a "2a-7" like fund. The fund is an S&P AAAM rated money market product offering a fiscally conservative diversification option for Florida local governments. The objective of the fund is to provide investors with liquidity, stable share price and as high a level of current income as is consistent with preservation of principal and liquidity. The weighted average maturity is 34.39 days and 44.98 days as of September 30, 2018 and 2017, respectively.

Florida Cooperative Liquid Assets Securities System (FLCLASS) is an external local government investment pool created by interlocal agreement under F.S. 163.01. The pool is supervised by an appointed Board of Trustees comprised of eligible participants of the program. The Board acts as the liaison between the participants, the custodian, and the program administrator. The fund is an S&P AAAM rated money market product offering a fiscally conservative diversification option for Florida local governments. The objective of the fund is to provide investors with liquidity, stable share price and as high a level of current income as is consistent with preservation of principal and liquidity. The weighted average maturity is 50 days and 56 days as of September 30, 2018 and 2017, respectively.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

External investment pools used propriety information or single source pricing. This pricing includes the use of benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data.

NOTE 3 - ACCOUNTS RECEIVABLE

Billings to Sewer System customers are based on a minimum rate determined by customer classification and metered consumption which is determined at various dates over a two-month cycle. A receivable is recorded and revenue is recognized for the estimated unbilled consumption at year-end. The components of accounts receivable are as follows:

	2018	2017
Accounts receivable - billed	\$ 3,654,464	\$ 3,781,325
Accounts receivable – unbilled	<u>4,874,896</u>	<u>4,912,126</u>
	8,529,360	8,693,451
Less allowance for doubtful accounts	<u>(360,026)</u>	<u>(397,748)</u>
Total accounts receivable, net	<u>\$ 8,169,334</u>	<u>\$ 8,295,703</u>

The provision for bad debts is recorded as a reduction (increase) of retail sewer service charges on the statements of revenues, expenses, and changes in net position. The amounts for the years ended September 30, 2018 and 2017 were \$(37,722) and \$(53,390), respectively.

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PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 4 - CAPITAL ASSETS

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

	October 1, <u>2017</u>	Additions and <u>Transfers In</u>	Disposals and <u>Transfers Out</u>	September 30, <u>2018</u>
Nondepreciable assets:				
Land	\$ 5,140,419	\$ -	\$ -	\$ 5,140,419
Construction in progress	14,856,778	28,849,495	(27,902,815)	15,803,458
Depreciable assets:				
Field service buildings	15,819,858	941,743	-	16,761,601
Utilities Admin building	3,003,345	228	-	3,003,573
Improvements:				
General Maintenance Department	371,008	23,435	-	394,443
Utilities Admin building	138,738	-	-	138,738
Collection and transmission, treatment and disposal	884,630,419	26,970,409	-	911,600,828
Intangible assets	2,150,004	198,130	-	2,348,134
Equipment	<u>15,706,968</u>	<u>1,554,000</u>	<u>(516,714)</u>	<u>16,744,254</u>
Total cost	<u>941,817,537</u>	<u>58,537,440</u>	<u>(28,419,529)</u>	<u>971,935,448</u>
Less accumulated depreciation:				
Field service buildings	7,091,133	482,455	-	7,573,588
Utilities Admin building	1,897,764	98,730	-	1,996,494
Improvements:				
General Maintenance Department	89,482	17,309	-	106,791
Utilities Admin building	74,397	5,034	-	79,431
Collection and transmission, treatment and disposal	304,510,383	18,378,126	-	322,888,509
Intangible assets	1,041,878	137,087	-	1,178,965
Equipment	<u>8,032,022</u>	<u>994,478</u>	<u>(445,042)</u>	<u>8,581,458</u>
Total accumulated depreciation	<u>322,737,059</u>	<u>20,113,219</u>	<u>(445,042)</u>	<u>342,405,236</u>
Capital assets, net	<u>\$ 619,080,478</u>	<u>\$ 38,424,221</u>	<u>\$ (27,974,487)</u>	<u>\$ 629,530,212</u>

As explained in Note 1 on page 16, effective for reporting periods after September 30, 2017, interest costs are no longer capitalized.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 4 - CAPITAL ASSETS (Continued)

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

	October 1, <u>2016</u>	Additions and <u>Transfers In</u>	Disposals and <u>Transfers Out</u>	September 30, <u>2017</u>
Nondepreciable assets:				
Land	\$ 5,106,619	\$ 33,800	\$ -	\$ 5,140,419
Construction in progress	18,234,315	23,564,540	(26,942,077)	14,856,778
Depreciable assets:				
Field service buildings	15,733,740	86,118	-	15,819,858
Utilities Admin building	3,003,345	-	-	3,003,345
Improvements:				
General Maintenance Department	361,985	9,023	-	371,008
Utilities Admin building	138,738	-	-	138,738
Collection and transmission, treatment and disposal	857,648,408	26,982,011	-	884,630,419
Intangible assets	2,086,940	63,064	-	2,150,004
Equipment	<u>16,412,578</u>	<u>1,336,846</u>	<u>(2,042,456)</u>	<u>15,706,968</u>
Total cost	<u>918,726,668</u>	<u>52,075,402</u>	<u>(28,984,533)</u>	<u>941,817,537</u>
Less accumulated depreciation:				
Field service buildings	6,657,788	433,345	-	7,091,133
Utilities Admin building	1,798,395	99,369	-	1,897,764
Improvements:				
General Maintenance Department	73,191	16,291	-	89,482
Utilities Admin building	69,363	5,034	-	74,397
Collection and transmission, treatment and disposal	286,861,619	17,648,764	-	304,510,383
Intangible assets	928,935	112,943	-	1,041,878
Equipment	<u>9,081,404</u>	<u>940,253</u>	<u>(1,989,635)</u>	<u>8,032,022</u>
Total accumulated depreciation	<u>305,470,695</u>	<u>19,255,999</u>	<u>(1,989,635)</u>	<u>322,737,059</u>
Capital assets, net	<u>\$ 613,255,973</u>	<u>\$ 32,819,402</u>	<u>\$ (26,994,897)</u>	<u>\$ 619,080,478</u>

Interest expenses incurred during fiscal year 2017 was \$6,077,135 of which \$733,635 was capitalized and \$5,343,503 was expensed.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 5 - LONG-TERM LIABILITIES

Revenue bonds payable at September 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Sewer Revenue Refunding Note, Series 2016, payable annually commencing October 1, 2016, and each year thereafter through 2024, with interest at 2.2%, payable semiannually	\$ 11,295,000	\$ 13,031,000
Sewer Revenue Refunding Bonds, Series 2012, payable annually commencing October 1, 2013, and each year thereafter through 2031, with interest at 3.25% to 5.0%, payable semiannually	49,775,000	52,310,000
Sewer Revenue Bonds, Series 2008 A, payable annually commencing October 1, 2009, and each year thereafter through 2028, with interest at 4.41%, payable semiannually	38,175,000	38,640,000
Sewer Revenue Refunding Bonds, Series 2008 B-1, payable annually commencing October 1, 2009, and each year thereafter through 2024, with interest at 4.24%, payable semiannually	28,000,000	32,025,000
Sewer Revenue Bonds, Series 2003, payable annually commencing October 1, 2003, and each year thereafter through 2032, with interest at 5.0%, payable semiannually	<u>5,215,000</u>	<u>5,215,000</u>
	132,460,000	141,221,000
Plus:		
Unamortized premium	<u>3,149,609</u>	<u>3,581,330</u>
	135,609,609	144,802,330
Less current maturities	<u>(2,635,000)</u>	<u>(2,535,000)</u>
Total	<u>\$ 132,974,609</u>	<u>\$ 142,267,330</u>

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 5 - LONG-TERM LIABILITIES (Continued)

The Sewer Revenue Bonds are payable from and secured by a first lien upon and a pledge of the net revenues derived from the operation of the Sewer System. The reserve fund requirement for the 2003 and 2006 Bonds has been met through the purchase of a surety bond. The requirement for the Series 2008 and 2008 B-1, 2011, 2012 Bonds and 2016 Note has been met by setting aside a cash reserve.

The following is a schedule of changes in long-term liabilities for fiscal year ended September 30, 2018:

<u>Sewer</u>	Beginning <u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	Ending <u>Balance</u>	Due in <u>One Year</u>
Sewer Revenue Refunding Bonds, Series 2016	\$ 13,031,000	\$ -	\$ (1,736,000)	\$ 11,295,000	\$ -
Sewer Revenue Refunding Bonds, Series 2012	52,310,000	-	(2,535,000)	49,775,000	2,635,000
Sewer Revenue Refunding Bonds, Series 2011	-	-	-	-	-
Sewer Revenue Bonds, Series 2008A	38,640,000	-	(465,000)	38,175,000	-
Sewer Revenue Refunding Bonds, Series 2008B-1	32,025,000	-	(4,025,000)	28,000,000	-
Sewer Revenue Refunding Bonds, Series 2006	-	-	-	-	-
Sewer Revenue Bonds, Series 2003	5,215,000	-	-	5,215,000	-
Unamortized premium on refundings	<u>3,581,330</u>	<u>-</u>	<u>(431,721)</u>	<u>3,149,609</u>	<u>-</u>
Total bonds payable	144,802,330	-	(9,192,721)	135,609,609	2,635,000
Compensated absences	1,227,542	1,099,096	(1,074,411)	1,252,227	1,074,411
Other post employment benefits ⁽¹⁾	26,550,072	1,475,203	(2,471,572)	25,553,703	-
Net pension liability	<u>10,828,703</u>	<u>3,037,027</u>	<u>(3,066,789)</u>	<u>10,798,941</u>	<u>-</u>
 Total long-term obligations	 <u>\$ 183,408,647</u>	 <u>\$ 5,611,326</u>	 <u>\$ (15,805,493)</u>	 <u>\$ 173,214,480</u>	 <u>\$ 3,709,411</u>

(1) As restated, see Note 12

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 5 - LONG-TERM LIABILITIES (Continued)

The following is a schedule of changes in long-term liabilities for fiscal year ended September 30, 2017:

<u>Sewer</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Sewer Revenue Refunding Bonds, Series 2016	\$ 14,733,000	\$ -	\$ (1,702,000)	\$ 13,031,000	\$ -
Sewer Revenue Refunding Bonds, Series 2012	54,770,000	-	(2,460,000)	52,310,000	2,535,000
Sewer Revenue Refunding Bonds, Series 2011	3,545,000	-	(3,545,000)	-	-
Sewer Revenue Bonds, Series 2008A	39,085,000	-	(445,000)	38,640,000	-
Sewer Revenue Refunding Bonds, Series 2008B-1	32,110,000	-	(85,000)	32,025,000	-
Sewer Revenue Refunding Bonds, Series 2006	1,495,000	-	(1,495,000)	-	-
Sewer Revenue Bonds, Series 2003	5,215,000	-	-	5,215,000	-
Unamortized premium on refundings	<u>4,034,732</u>	<u>-</u>	<u>(453,402)</u>	<u>3,581,330</u>	<u>-</u>
Total bonds payable	154,987,732	-	(10,185,402)	144,802,330	2,535,000
Compensated absences	1,175,049	1,045,575	(993,082)	1,227,542	993,082
Other post employment benefits	10,585,930	1,845,316	(929,988)	11,501,258	-
Net pension liability	<u>10,474,076</u>	<u>5,203,351</u>	<u>(4,848,724)</u>	<u>10,828,703</u>	<u>-</u>
Total long-term obligations	<u>\$ 177,222,787</u>	<u>\$ 8,094,242</u>	<u>\$ (16,957,196)</u>	<u>\$ 168,359,833</u>	<u>\$ 3,528,082</u>

The annual requirements to amortize the revenue bonds outstanding as of September 30, 2018 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year:			
2019	\$ 2,635,000	\$ 3,900,090	\$ 6,535,090
2020	9,205,000	5,263,167	14,468,167
2021	9,554,000	4,883,669	14,437,669
2022	9,937,000	4,482,055	14,419,055
2023	10,343,000	4,063,200	14,406,200
2024-2028	58,956,000	13,261,225	72,217,225
2029-2033	<u>31,830,000</u>	<u>2,750,500</u>	<u>34,580,500</u>
	<u>\$ 132,460,000</u>	<u>\$ 38,603,906</u>	<u>\$ 171,063,906</u>

The annual debt service coverage, as defined by the bond requirements, for the fiscal year ended September 30, 2018 is as follows (in thousands):

<u>Revenues and Other Receipts</u>	<u>Expenditures</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirements</u>	<u>Debt Service Coverage</u>
\$ 78,534	\$ 44,607	\$ 33,927	\$ 14,629	2.32x

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 6 - RELATED PARTY TRANSACTIONS

The Sewer System purchases various data processing, administrative, accounting, and insurance services from the Pinellas County, Florida Board of County Commissioners. Total payments for services provided by the Pinellas County, Florida Board of County Commissioners for the years ended September 30, 2018 and 2017, were \$6,854,064 and \$4,940,131, respectively. Such amounts are included in other operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Construction commitments as of September 30, 2018 and 2017 were \$11,870,611 and \$13,808,198, respectively.

NOTE 8 - RETIREMENT PLANS

Florida Retirement System Pension Plan (FRSPP)

Plan Description - Substantially all full-time employees of the Sewer System are eligible to participate in the Florida Retirement System (FRS) and are provided with pensions through the FRS Public Employment Retirement System - a cost-sharing, multiple-employer defined benefit pension plan administered by the Florida Department of Management Services' Division of Retirement. Chapter 121 of the State Statutes grants the authority to establish and amend the benefit terms to the Florida Legislature. FRS issues a publicly available financial report that can be obtained at:

www.dms.myflorida.com/workforce_operations/retirement/publications

Benefits provided - The FRS pension plan provides retirement, death, and disability benefits to plan members and beneficiaries. Plan benefits are computed on the basis of age, average final compensation and service credits. Based on an employee's date of entry into the Florida Retirement System, those employees participating in the Pension Plan who retire at or after age 62 (age 65 for those initially enrolled in the plan on or after July 1, 2011) with 6 years of credited service (8 years of service for those initially enrolled in the plan on or after July 1, 2011), or with 30 years of service regardless of age (33 years of service regardless of age for those initially enrolled in the plan on or after July 1, 2011), are entitled to a retirement benefit. Final average compensation is based on an average of the employee's five highest fiscal year salaries (8 years for those initially enrolled in the plan after July 1, 2011) earned during credited service. Vested employees may retire before age 62 (65) and receive benefits that are reduced 5% for each year prior to normal retirement age.

The Deferred Retirement Option Program (DROP) is a program that provides an alternative method for payment of retirement benefits for a specified and limited period for members of the System, effective July 1, 1998. Under this program, the employee may retire and have their benefits accumulate in the Florida Retirement System Trust Fund, earning interest, while continuing to work for a system employer. The participation in the program does not change conditions of employment. When the DROP period ends, maximum of 60 months, employment must be terminated. At the time of termination of employment, the employee will receive payment of the accumulated DROP benefits and begin receiving their monthly retirement benefit (in the same amount determined at retirement, plus applicable COLA increases).

Contributions - Employer and employee contribution rates are established in section 121.71, Florida Statutes. All participating employers must comply with statutory contribution requirements. Employer contribution rates under the uniform rate structure (a blending of both the FRS Pension Plan and Investment Plan rates) are recommended by the actuary, but set by the Legislature. Employees participating in the Pension Plan are required to contribute 3.00 percent of their annual pay.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 8 - RETIREMENT PLANS (Continued)

Employees who are enrolled in the DROP program are not subject to the contribution. The Sewer System's contractually required contribution rate, including the Health Insurance Subsidy (HIS), through June 30, 2018 ranged from 7.92 percent to 45.50 percent of covered payroll based on employee risk groups. Effective July 1, 2018 rates, including HIS, ranged from 8.26 percent to 48.70 percent of covered payroll based on employee risk groups. These rates, actuarially determined to generate an amount that, when combined with employee contributions, are expected to finance the costs of benefits earned by employee's during the year with an additional amount to finance unfunded plan liabilities. The Sewer System's contributions to the plan for the years ended September 30, 2018 and 2017 were \$636,780 and \$588,001, respectively, equal to the required contributions for each year.

Florida Retiree Health Insurance Subsidy (HIS) Program

Plan description - Substantially all full-time employees of the Sewer System are provided with pensions through the Florida Retirement System (FRS) Retiree Health Insurance Subsidy (HIS) Program—a cost-sharing multiple-employer defined benefit pension plan administered by the Florida Department of Management Services' Division of Retirement. Chapter 121 of the State Statutes grants the authority to establish and amend the benefit terms to the Florida Legislature. FRS issues a publicly available financial report to be obtained at:

www.dms.myflorida.com/workforce_operations/retirement/publications

Benefits provided - HIS provides a monthly payment to assist retirees of state-administered retirement systems in paying their health insurance costs. Eligible retirees and beneficiaries receive a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments are at least \$30 but not more than \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a state-administered retirement system must provide proof of health insurance coverage, which can be Medicare.

Contributions - Employer contribution rates are set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. The County's contractually required contribution rate through September 30, 2018 was 1.66 percent of covered payroll. Contributions to the HIS program from the Sewer System for the years ended September 30, 2018 and 2017 were \$176,278 and \$171,255 respectively, equal to the required contributions for each year.

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

Employer Proportionate Share of Collective Net Pension Liability - At September 30, 2018, the Sewer System reported a liability of \$7,339,161 and \$3,459,780, respectively, for its share of the Board's proportionate share of the collective net pension liability for FRSP and HIS. At September 30, 2017, the Sewer System reported a liability of \$7,304,096 and \$3,524,607, respectively, for its share of the Board's proportionate share of the collective net pension liability for FRSP and HIS. The collective net pension liabilities were measured as of June 30, 2018 and June 30, 2017, and the total pension liabilities used to calculate the collective net pension liability were determined by an actuarial valuation as of these dates. The Sewer System's proportion of the collective net pension liabilities were based on the Sewer System's historical employer contributions to the pension plan relative to the historical contributions of all Board departments. At June 30, 2018, the Sewer System's proportion was 8.32 percent for FRSP and HIS, which was an increase of .079 percent for FRSP and HIS from its proportion measured as of June 30, 2017. At June 30, 2017, the Sewer System's proportion was .0247 percent and .0330 percent, respectively, for FRSP and HIS, which was a decrease of .0011 percent and .0011 percent respectively, for FRSP and HIS from its proportion measured as of June 30, 2016.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 8 - RETIREMENT PLANS (Continued)

Pension Expense - For the year ended September 30, 2018, the Sewer System recognized pension expense of \$485,235 and \$54,476, respectively for FRSP and HIS which was an increase of \$389,721 and an increase of \$341,660 respectively, for FRSP and HIS from its proportion measured as of September 30, 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At September 30, the Sewer System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Florida Retirement System Pension Plan

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 621,737	\$ 22,566	\$ 670,340	\$ 40,461
Change of assumptions	2,398,080	-	2,454,692	-
Net differences between projected and actual earnings on pension plan investments	-	567,040	-	181,014
Changes in proportion and differences between Sewer System contributions and proportionate share of contributions	196,135	645,453	275,607	734,913
Sewer System contributions subsequent to the measurement date	<u>169,356</u>	<u>-</u>	<u>157,026</u>	<u>-</u>
Total	<u><u>\$ 3,385,308</u></u>	<u><u>\$ 1,235,059</u></u>	<u><u>\$ 3,557,665</u></u>	<u><u>\$ 956,388</u></u>

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 8 - RETIREMENT PLANS (Continued)

Health Insurance Subsidy

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 52,968	\$ 5,878	\$ -	\$ 7,339
Change of assumptions	384,770	365,797	495,439	304,777
Net differences between projected and actual earnings on pension plan investments	2,088	-	1,955	-
Changes in proportion and differences between Sewer System contributions and proportionate share of contributions	139,592	373,914	166,691	398,951
Sewer System contributions subsequent to the measurement date	<u>40,616</u>	<u>-</u>	<u>40,731</u>	<u>-</u>
Total	<u><u>\$ 620,034</u></u>	<u><u>\$ 745,589</u></u>	<u><u>\$ 704,816</u></u>	<u><u>\$ 711,067</u></u>

\$169,356 and \$40,616, respectively, are reported as deferred outflows of resources related to pensions resulting from Sewer System's contributions subsequent to the measurement date for FRSP and HIS and will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. Similarly, \$157,026 and \$40,731, respectively, was reported at September 30, 2017 for FRSP and HIS and recognized as reductions to the net pension liability for the year ended September 30, 2018. Other amounts reported as deferred outflows/(inflows) of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	2018		2017	
	<u>FRSP</u>	<u>HIS</u>	<u>FRSP</u>	<u>HIS</u>
2018	\$ -	\$ -	\$ 303,882	\$ (11,890)
2019	751,111	(86,082)	816,927	(11,837)
2020	534,430	(85,838)	598,351	(11,811)
2021	89,862	(68,038)	151,457	(9,982)
2022	355,595	(22,415)	418,740	(6,186)
2023	222,409	54,424	-	-
Thereafter	<u>27,486</u>	<u>41,778</u>	<u>154,894</u>	<u>4,724</u>
Totals	<u><u>\$ 1,980,893</u></u>	<u><u>\$ (166,171)</u></u>	<u><u>\$ 2,444,251</u></u>	<u><u>\$ (46,982)</u></u>

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 8 - RETIREMENT PLANS (Continued)

Assumptions and Other Inputs

Actuarial Assumptions - The total pension liability from the June 30, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions applied to all periods included in the measurement:

	2018		2017	
	FRSPP	HIS	FRSPP	HIS
Inflation	2.60%	2.60%	2.60%	2.60%
Salary increases including inflation	3.25%	3.25%	3.25%	3.25%
Long term investment rate of return, net of investment	7.00%	3.87%	7.10%	3.58%
Mortality rates	Generational RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale BB*		Generational RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale BB*	

The actuarial assumptions used in the June 30, 2018 and 2017 valuations were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. Because the HIS Program is based on a pay-as-you-go basis, no experience study has been completed for that program.

Long-Term Expected Rate of Return - To develop an analytical basis for the selection of the long-term expected rate of return assumption, in October 2018, the FRS Actuarial Assumptions Conference reviewed long-term assumptions developed by both Milliman's capital market assumptions team and by a capital market assumptions team from Aon Hewitt Investment Consulting, which consults to the Florida State Board of Administration. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the long-term target asset allocation. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class Allocation	2018		2017	
	Target	Long-Term Expected Real Rate of Return	Target	Long-Term Expected Real Rate of Return
Cash	1%	2.9%	1%	3.0%
Fixed income	18%	4.4%	18%	4.5%
Global equity	54%	7.6%	53%	7.8%
Real estate (property)	11%	6.6%	10%	6.6%
Private equity	10%	10.7%	6%	11.5%
Strategic investments	6%	6.0%	12%	6.1%
Total	100.00%		100.00%	

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 8 - RETIREMENT PLANS (Continued)

Discount Rate - The discount rate used in the June 30, 2018, 2017 and 2016 valuations to measure the total pension liability was 7.00 percent, 7.10 percent and 7.60 percent, respectively for FRSP. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return on pension plan investments and was applied to all periods of projected benefit payments to determine the total pension liability. The change in the FRSP discount rate since the prior measurement date was a decrease of 0.10 percent due to a revised rate of return assumption at the 2018 FRS Actuarial Assumptions Conference. From 2016 to 2017 there was a decrease of 0.50 percent due to the long-term expected rate of return.

The discount rate used in the June 30, 2018, 2017 and 2016 valuations to measure the total pension liability was 3.87 percent, 3.58 percent and 2.85 percent, respectively for HIS; an increase of 0.29 percent for June 30, 2018 compared to June 30, 2017. There was an increase of 0.73 percent from June 30, 2016 to June 30, 2017. In general, the discount rate for calculating the total pension liability under GASB 67 is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the long-term municipal bond index rate selected by the plan sponsor. The Actuarial Assumptions Conference has adopted the Bond Buyer General Obligation 20-Bond Municipal Bond Index as the applicable bond index. The discount rate used at the two dates differs due to changes in the applicable long-term municipal bond index rate.

Sensitivity of the Sewer's Net Pension Liability to Changes in the Discount Rate - The following presents the proportionate share of the net pension liability calculated using the current discount rate, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate as of June 30, 2018 and 2017:

2018			2017		
Sewer Proportionate Share of the FRS PP Net Pension Liability			Sewer Proportionate Share of the FRS PP Net Pension Liability		
1% Decrease	Current Discount Rate	1% Increase	1% Decrease	Current Discount Rate	1% Increase
6.00%	7.00%	8.00%	6.10%	7.10%	8.10%
\$ 13,394,277	\$ 7,339,161	\$ 2,310,029	\$ 13,219,973	\$ 7,304,096	\$ 2,392,563

2018			2017		
Sewer Proportionate Share of the HIS Net Pension Liability			Sewer Proportionate Share of the HIS Net Pension Liability		
1% Decrease	Current Discount Rate	1% Increase	1% Decrease	Current Discount Rate	1% Increase
2.87%	3.87%	4.87%	2.58%	3.58%	4.58%
\$ 3,940,487	\$ 3,459,780	\$ 3,059,084	\$ 4,022,044	\$ 3,524,607	\$ 3,110,270

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued FRSP and HIS financial report.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 8 - RETIREMENT PLANS (Continued)

Payables to the Pension Plan - As of September 30, 2018, the Sewer System had \$51,811 and \$13,723 in legally required contributions payable to the FRSP and HIS, respectively. As of September 30, 2017, legally required contributions payable to the FRSP and HIS were \$53,656 and \$15,059, respectively.

Florida Retirement System Investment Plan (FRSIP)

Plan Description - Substantially all full-time employees of the Sewer System are provided with pensions through the Florida Retirement System Investment Plan, a defined contribution pension plan, for its eligible employees in lieu of participation in the defined benefit option of FRS. The Investment Plan is administered by the State Board of Administration.

Benefits Provided - Benefits are accrued in individual accounts that are participant-directed, portable, and funded by employer/employee contributions. The Investment Plan offers a diversified mix of investment options that span the risk-return spectrum and give participants opportunity to accumulate retirement benefits.

Contributions – Employer and employee contribution rates are set by the Florida Legislature. The Sewer System's contractually required contribution rates, including HIS, through June 30, 2018 ranged from 7.92 percent to 45.50 percent of covered payroll based on employee risk groups. Effective July 1, 2018, rates including HIS ranged from 8.26 percent to 48.70 percent of covered payroll based on employee risk groups. Employees are required to make a 3.00 percent contribution to the investment plan. Contributions to the Investment Plan from the Sewer System were \$141,232 and \$121,839 for the years ended September 30, 2018 and 2017, respectively, equal to the required contributions for each year. Employees are vested after one year of service. Benefits are based on the total value of the account at distribution. This amount is based on contributions, earnings or losses on those contributions, less expenses.

Payable to the Investment Plan - As of September 30, 2018 and 2017, the Sewer System has legally required contributions to the Investment Plan of \$11,415 and \$11,075, respectively.

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PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 9 - OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (OPEB) PLAN

Plan Description - The Sewer System participates in the County's single-employer defined benefit plans (OPEB) that cover eligible retirees and their dependents. Benefits are established by the County for the plan and can change over time. The County is required by Florida Statute 112.0801 to allow retirees and certain former employees to buy healthcare coverage at group rates. The levels of benefit and the amount of contribution for the County Plan is reviewed and approved annually by the Unified Personnel Board. The annual budgeted amount is approved through appropriations by the Board of County Commissioners for the plan. The healthcare plan does not issue stand-alone financial reports and a trust to fund the OPEB obligation has not been established. The cost of benefits provided by the OPEB plan is currently on a pay-as-you-go basis.

GASB Statement Number 75 (GASB 75) for OPEB became effective for fiscal year end September 30, 2018. GASB 75 requires recognition of total OPEB liability and the OPEB expense along with the related deferred outflows and inflows of resources. The total OPEB liability, related deferred inflows, deferred outflows and expenses are presented on the Statements of Fund Net Position. See Note 12 for the effect of the restatement on net position.

Benefits Provided - The County's plan provides postretirement health care benefits to all employees who retire on or after attaining at least 10 years of service. The County pays a percentage of the premium for medical and dental insurance for the former employees who retired prior to October 1, 2004. For non-Medicare eligible retirees, employees enrolled in DROP and those within 5 years of normal FRS retirement prior to October 1, 2004, the County will continue funding at the same level as active employees. For employees not part of the previously mentioned groups who were hired prior to January 1, 2011 and who retire on or after October 1, 2004, a health insurance subsidy based on length of service will be provided. The subsidy will range from 25 percent of the premium for 10 years of service, increasing by 3.33 percent per year of service to 75 percent for 25 years of more, calculated on the single premium of the lowest cost plan.

Funding Policy - The contribution requirements of the plan members and the employers are established and may be amended by the County for the plan. Contributions to the plan are actual pay as you go payments less participant contributions. Contributions to the plan in excess of benefits paid on behalf of retirees are earmarked for future OPEB expenses. However, they do not reduce the total OPEB liability. The County subsidy is assumed to remain flat. No assets have been segregated and restricted to provide postemployment benefits.

Employees covered by benefit terms - At September 30, 2017 (the date of the last actuarial valuation plan), the following employees were covered by the benefit terms:

The total OPEB liability for the Sewer System at September 30, 2018 and 2017 was \$25,553,703 and \$26,550,072, respectively.

Plan Membership:

Inactive plan members or beneficiaries currently receiving benefits	-
Inactive plan members entitled to but not yet receiving benefits	-
Active plan member	<u>203</u>
	<u><u>203</u></u>

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 9 - OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (OPEB) PLAN (Continued)

Actuarial Methods and Assumptions. The total OPEB liability was actuarially determined based on an actuary valuation using assumptions listed below. The total OPEB liability is based on the actuarial valuation performed as of September 30, 2017 and a measurement date of September 30, 2017. Projections of benefits for financial reporting purposes were based on the substantive plan as understood by the County and its respective plan members. This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employee and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liability and the actuarial value of assets, consistent with the long term perspective of the calculation and assumptions about the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. The other significant actuarial assumptions used to determine total OPEB liability include the following:

Actuarial Valuation Date	September 30, 2017
Measurement Date	September 30, 2017
Fiscal Year End Date (Reporting Date)	September 30, 2018
Actuarial Cost Method:	Entry Age Normal
Amortization Method	Level percent of pay, closed
Asset Valuation Method	N/A Unfunded
Actuarial Assumptions:	
Discount rate	3.50%
Inflation	2.50%
Projected Salary Increases	3.7-7.8% (from July 1, 2016 FRS Actuarial Valuation)
Retirement age	From July 1, 2016 FRS Actuarial Valuation
Mortality	From July 1, 2016 FRS Actuarial Valuation
Healthcare cost trend rates	Starting at 7.0% on 1/1/2018, 6.75% on 1/1/19, and 4.24% thereafter

Changes in the total OPEB liability presented on the County's basic financial statements are as follows (measurement Year Ended September 30, 2017).

Total OPEB liability	
Service Cost	\$ 646,549
Interest of the total OPEB liability	828,654
Changes of benefit terms	-
Difference between expected and actual experience of the total OPEB liability *	-
Changes in assumptions	(1,539,872)
Benefit payments	<u>(931,700)</u>
Net change in total OPEB liability	(996,369)
Total OPEB liability - beginning*	<u>26,550,072</u>
Total OPEB liability - ending	<u>\$ 25,553,703</u>

*Total OPEB liability at the beginning of the initial period of implementation was developed by rolling back the liability from the measurement date as permitted by GASB 75. Consequently, there was no difference between expected and actual experience resulting in a zero figure.

Benefit Payments - Benefit payments consist of claims paid to retirees participating in the Plan. Total benefit payments for Sewer were \$931,700, for fiscal year 2018.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 9 - OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (OPEB) PLAN (Continued)

Discount Rate - For plans that do not have formal assets, as with this Plan, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For this valuation, the municipal bond rate used was 3.5 percent (based on the daily rate of Fidelity's "20-Year municipal GO AA Index" closest to but not later than the measurement date). The discount rate was 3.1 percent at the beginning of the measurement year. This change in discount rate is reflected in the schedule of total OPEB liability and decreased the total OPEB liability.

Sensitivity of the total OPEB liability to changes in the discount rate - The following presents the respective total OPEB liability calculated using the current discount rate, as well as what their total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

1% Decrease	Current Discount Rate	1% Increase
2.50%	3.50%	4.50%
\$ 29,642,426	\$ 25,553,703	\$ 22,191,100

Sensitivity of the total OPEB liability to changes in the healthcare cost trend - The following presents the respective total OPEB liability calculated using the current healthcare cost trend rate, as well as what their total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
\$ 21,612,677	\$ 25,553,703	\$ 30,564,440

OPEB expense for the year ended September 30, 2018, actuary determined total OPEB expenses for the Sewer System was \$1,241,889.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At September 30, 2018, the reporting entity reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in Actuarial Assumptions		(1,306,558)
Contributions subsequent to the measurement date	948,114	-
Total	\$ 948,114	\$ (1,306,558)

\$948,114 for the Sewer System, reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended September 30, 2019.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 9 - OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (OPEB) PLAN (Continued)

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

<u>Year ending September 30,</u>	
2019	\$ (233,314)
2020	(233,314)
2021	(233,314)
2022	(233,314)
2023	(233,314)
Thereafter	<u>(139,988)</u>
Totals	<u>\$ (1,306,558)</u>

NOTE 10 - RISK MANAGEMENT

The Sewer System is exposed to various risks of loss, including worker injury, property losses, and various legal liability exposures such as auto liability, general liability, pollution, cyber risk, and errors and omissions. The Sewer System is substantially self-insured and accounts for and finances its risks of self-insured retention through Pinellas County's Risk Financing Fund, an internal service fund. All liabilities associated with the self-insured risks are reported in the basic financial statements of the Board of County Commissioners. During the years ended September 30, 2018 and 2017, the Sewer System was charged \$1,242,030 and \$1,042,750, respectively, by the County for participation in the risk management program. Under this program, the Sewer System provides coverage for up to \$2 million per occurrence and/or claim workers' compensation. The fund provides coverage up to \$2 million per claim/occurrence for liability claims. Negligence claims in excess of the statutory limits set in Section 768.28, *Florida Statutes*, which provide for limited sovereign immunity of \$200,000/\$300,000 per occurrence usually can only be recovered through an act of the State Legislature known as a claims bill. In the event a claims bill is filed and awarded, and/or the claim is in excess of the Sewer System's self-insured retention, additional risks have been transferred through the purchase of commercial insurance policies. Workers compensation coverage is purchased for statutory limits per *Florida Statute* 440. Auto liability coverage is purchased with a limit of \$15 million per occurrence or accident. General liability, law enforcement, employment practices, and errors and omissions liability coverage is purchased with a limit of \$15 million per occurrence/claim, subject to an annual aggregate of \$15 million. For risks that are not subject to Section 768.28, or are property exposures, special policies are maintained. Settled claims have not exceeded commercial coverage in the last three fiscal years.

NOTE 11 - LITIGATION

The Sewer System is involved as defendant or plaintiff in certain litigation and claims arising from the ordinary course of operations. In the opinion of the Sewer System's management and legal counsel, the range of potential recoveries or liabilities will not have a material adverse effect on the financial statements of the Sewer System.

(Continued)

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
NOTES TO FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 12 – RESTATEMENT

Implementation of GASB Statement Number 75

With the implementation of GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the Sewer System reports its proportionate share of total OPEB liability, OPEB expense, and deferred inflows and deferred outflows of resources, as well as additional note disclosures and required supplementary information.

The Sewer System has restated the beginning net position in the Changes in Net Position as follows:

Net position - beginning	\$ 538,767,573
Adoption of GASB statement number 75 - restatement for:	
Total OPEB liability	(15,048,814)
OPEB related deferred outflows	<u>931,701</u>
Net position - beginning, as restated	<u>\$ 524,650,460</u>

REQUIRED SUPPLEMENTARY INFORMATION

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2018 and 2017

Schedule of Sewer System Proportionate Share of the County's Total OPEB Liability
Last Ten Fiscal Years

	Fiscal Year
	<u>2018</u>
Sewer System's percentage share of the total OPEB liability	6.4886%
Sewer System's proportionate share of the total OPEB liability	\$ 25,553,703
Sewer System's annual covered-employee payroll	\$ 10,357,817
Total OPEB liability as a percentage of covered-employee payroll	246.71%

Schedule of Proportionate Share of Total OPEB Liability. The data reported in the Schedule of Proportionate Share of the Total OPEB Liability for the Sewer Systems OPEB Plan for fiscal year ending September 30, 2018 is based upon the measurement dates for October 1, 2016 to September 30, 2017. The changes in the assumptions during the fiscal year ended September 30, 2018 reflect the changes in the discount rate, based on the municipal bond rate, which was increased from 3.1 percent to 3.5 percent during the measurement period. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement number 75.

This schedule is intended to show information for ten (10) years. The changes in the total OPEB liability for years prior to the fiscal year ending September 30, 2018 were not available and accordingly, were not included in the schedule. Additional years will be displayed as they become available.

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2018 and 2017

**Schedule of Sewer System Proportionate Share of the Board's Net Pension Liability
FRS Pension Plan
Last Ten Fiscal Years**

Year Ended	Sewer System Proportion of Net Pension Liability	Sewer System Proportionate Share of Net Pension Liability	Sewer System Covered Payroll	Sewer System Proportionate Share of Net Pension Liability as a % of Covered Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
2018 ⁽¹⁾	8.3247%	\$ 7,339,161	\$ 8,618,419	85.16%	84.26%
2017	8.2410%	7,304,096	8,654,428	84.40%	83.89%
2016	9.0238%	6,502,182	8,804,963	73.85%	84.88%
2015	9.7785%	4,453,428	10,265,790	43.38%	92.00%
2014	8.1336%	1,896,013	9,781,826	19.38%	96.09%

**Schedule of Sewer System Proportionate Share of the Board's Net Pension Liability
HIS Pension Plan
Last Ten Fiscal Years**

Year Ended	Sewer System Proportion of Net Pension Liability	Sewer System Proportionate Share of Net Pension Liability	Sewer System Covered Payroll (2)	Sewer System Proportionate Share of Net Pension Liability as a % of Covered Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
2018	8.3247%	\$ 3,459,780	\$ 10,677,693	32.40%	2.15%
2017	8.2410%	3,524,607	10,507,661	33.54%	1.64%
2016	9.0238%	3,971,894	10,521,045	37.75%	0.97%
2015	9.7785%	4,293,230	11,972,147	35.86%	0.50%
2014	8.1336%	3,455,939	11,170,707	30.94%	0.99%

- (1) Year ended 2018 change in the capital FRSP discount rate due to a revised rate of return assumption at the 2018 Actuarial Assumptions Conference.
- (2) Covered payroll for 2015 was restated to reflect covered employee payroll during the measurement period rather than during the fiscal year for both FRS and HIS.

GASB Statement Number 68, "Accounting and Financial Reporting for Pensions", was implemented in fiscal year 2015 requiring ten-year trend data. Additional years will be displayed as the data becomes available. The amounts presented for each fiscal year were determined as of the June 30 year end that occurred within the fiscal year.

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
REQUIRED SUPPLEMENTARY INFORMATION
September 30, 2018 and 2017

**Schedule of Sewer System Contributions
FRS Pension Plan
Last Ten Fiscal Years**

Year Ended	Contractually Required Contribution	Contributions in relation to the Contractually Required Contribution	Contribution Deficiency	Sewer System Covered Payroll	Contributions as a % of Covered-Employee Payroll
2018 ⁽¹⁾	\$ 636,780	\$ 636,780	\$ -	\$ 8,578,542	7.42%
2017	588,001	588,001	-	8,441,031	6.97%
2016	596,728	596,728	-	8,879,984	6.72%
2015	650,101	650,101	-	9,637,331	6.75%
2014	705,108	705,108	-	9,781,826	7.21%

**Schedule of Sewer System Contributions
HIS Pension Plan
Last Ten Fiscal Years**

Contractually Required Contribution	Contributions in relation to the Contractually Required Contribution	Contribution Deficiency	Sewer System Covered Payroll	Contributions as a % of Covered-Employee Payroll
\$ 176,278	\$ 176,278	\$ -	\$ 10,646,032	1.66%
171,255	171,255	-	10,304,947	1.66%
176,795	176,795	-	10,654,855	1.66%
188,278	188,278	-	11,359,134	1.66%
140,751	140,751	-	11,170,707	1.26%

(1) Year ended 2018 change in the FRSP discount rate due to a revised rate of return assumption at the 2018 Actuarial Assumptions Conference.

GASB Statement Number 68, "Accounting and Financial Reporting for Pensions", was implemented in fiscal year 2015 requiring ten-year trend data. Additional years will be displayed as the data becomes available.

**SUPPLEMENTARY INFORMATION
(UNAUDITED)**

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
SCHEDULE OF INSURANCE COVERAGE (UNAUDITED)
September 30, 2018

Property There is \$235,524,261 in replacement value of building, contents and equipment, related structures and boiler and machinery for the South Cross Bayou Wastewater Treatment Plant and the William E. Dunn Water Reclamation Plant. This property is insured under the County's Highly Protected Property (HPR) program with a shared limit of \$389,380,950 for "all risk perils." This policy has a \$200,000,000 sublimit for wind and a \$100,000,000 sublimit for flood. The deductible for this policy is \$100,000 per occurrence except for "named" wind events, in which case, the deductible is the greater of \$100,000 or 1% of the location value for South Cross and 3% for the Dunn facility.

Insured under the County Master Property (non-HPR) policy are sewer pump stations valued at \$80,076,014 including the McKay Creek facility. The Master policy has a shared limit of \$200,000,000 with a \$100,000,000 sublimit for wind and flood. The deductible is \$100,000 except for "named" wind and flood which is the greater of \$500,000 or 5% of location value. Property Insurance coverage does not include underground piping, as the Sewer System will rely on FEMA coverage for damage.

Liability General Liability coverage on these structures is self-insured up to \$2 million. Following the self-insurance there is an excess policy with a \$15,000,000 aggregate. There is approximately \$250,147 Risk Financing Fund Reserves followed by a priority against renewal and replacement funds, and further guaranteed with a pledge of general non-ad valorem tax receipts. Proceeds necessary for losses at replacement value are pledge as security for outstanding bonds, with any excess repair or replacement costs to be deposited to the Sewer System Revenue Fund.

CUSTOMER STATISTICS (UNAUDITED)
September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Customers of the system	<u>83,664</u>	<u>83,509</u>

PINELLAS COUNTY, FLORIDA
SEWER SYSTEM ENTERPRISE FUND
HISTORICAL REVENUES AND EXPENSES AND DEBT SERVICE COVERAGE -
AS DEFINED BY BOND REQUIREMENTS (UNAUDITED)
(In thousands)

	<u>FY 13/14</u> <i>(Restated)</i>	<u>FY 14/15</u>	<u>FY 15/16</u>	<u>FY 16/17</u>	<u>FY 17/18</u>
Revenues and other receipts:					
Operating revenue:					
Sewer service charges	\$ 55,097	\$ 59,436	\$ 60,782	\$ 61,845	\$ 61,666
Wholesale charges	9,719	8,570	7,439	6,534	8,633
Reclaimed – retail	4,239	4,476	4,756	5,107	5,316
Reclaimed – wholesale	255	223	272	372	333
Laboratory services	188	205	199	211	206
Fat/oil/grease/tipping fees	291	226	226	226	226
Pelletized sludge sales	210	197	215	193	192
Tap fees and connection fees	21	46	13	22	83
Other	<u>57</u>	<u>43</u>	<u>46</u>	<u>4,489</u>	<u>562</u>
	<u>70,077</u>	<u>73,422</u>	<u>73,949</u>	<u>79,000</u>	<u>77,217</u>
Other revenues and receipts:					
Interest income	128	412	501	557	852
Other	<u>562</u>	<u>706</u>	<u>918</u>	<u>1,441</u>	<u>465</u>
	<u>690</u>	<u>1,118</u>	<u>1,419</u>	<u>1,998</u>	<u>1,317</u>
Total revenues and other receipts	70,767	74,540	75,367	80,998	78,534
Operating expenses:					
Collection system	5,688	6,308	6,680	10,175	9,950
Treatment and disposal system	24,244	27,603	27,127	26,700	27,867
Customer service	1,188	1,464	3,642	3,629	3,829
Administration	<u>3,392</u>	<u>4,594</u>	<u>2,864</u>	<u>2,157</u>	<u>2,961</u>
	<u>34,512</u>	<u>39,969</u>	<u>40,313</u>	<u>42,661</u>	<u>44,607</u>
Net revenue available for debt service	<u>\$ 36,255</u>	<u>\$ 34,571</u>	<u>\$ 35,054</u>	<u>\$ 38,337</u>	<u>\$ 33,927</u>
Debt service requirements	<u>\$ 14,454</u>	<u>\$ 14,456</u>	<u>\$ 14,380</u>	<u>\$ 14,310</u>	<u>\$ 14,629</u>
Debt service coverage	<u>2.51x</u>	<u>2.39x</u>	<u>2.44x</u>	<u>2.68x</u>	<u>2.32x</u>

OTHER REPORTS

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

The Members of the Board of County Commissioners
Pinellas County, Florida

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 Sewer System Enterprise Fund (System) of Pinellas County, Florida (County) as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise System's financial statements, and have issued our report thereon dated April 24, 2019. As discussed in Note 1, the financial statements present only the System and do not purport to, and do not, present fairly the financial position of the County, as of September 30, 2018, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of System'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 System'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.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of 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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Crowe LLP

Tampa, Florida
April 24, 2019

INDEPENDENT AUDITOR'S REPORT ON BOND COMPLIANCE

The Members of the Board of County Commissioners
Pinellas County, Florida

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of the Sewer System Enterprise Fund (System) of Pinellas County, Florida (County), as of and for the year ended September 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated April 24, 2019.

In connection with our audit, nothing came to our attention that caused us to believe that the System of the County failed to comply with the terms, covenants, provisions, or conditions of Article 5 of the Pinellas County, Florida Resolution No. 93-292 adopted by the Board of County Commissioners of Pinellas County, Florida on October 5, 1993, amended and supplemented on October 26, 1993 by Resolution No. 93-322, amended and supplemented on June 30, 1998 by Resolution No. 98-116, amended and supplemented on October 24, 2006 by Resolution No. 06-201, amended and supplemented on July 1, 2008 by Resolution No. 08-109, amended and supplemented July 12, 2011 by Resolution No. 2011-56, amended and supplemented on July 17, 2012 by Resolution No. 2012-35 governing the Pinellas County Sewer System Revenue Bonds, Series 2003, Pinellas County Sewer System Revenue Refunding Bonds, Series 2006, and the Pinellas County Sewer System Revenue Bonds, Series 2008 A, the Pinellas County Sewer System Revenue & Refunding Bonds, Series 2008 B-1, the Pinellas County Sewer System Revenue & Refunding Bonds, Series 2011, Pinellas County Sewer System Revenue and Refunding Bonds, Series 2012, and Pinellas County Sewer System Revenue and Refunding Bonds, Series 2016 insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the System's noncompliance with the above-referenced terms, covenants, provisions, or conditions insofar as they relate to accounting matters.

This report is intended solely for the information and use of management and the Board of County Commissioners of Pinellas County, Florida and is not intended to be, and should not be, used by anyone other than these specified parties.



Crowe LLP

Tampa, Florida
April 24, 2019