2016

Comprehensive Annual Financial Report

Fiscal Year Ended
June 30, 2016

Comprehensive Annual Financial Report
For Fiscal Year Ended June 30, 2016

PRINCIPAL OFFICIALS

Board Member	Representative of
M. Jerry VeHaun, Chairman	Town of Woodfin
E. Glenn Kelly, Vice-Chairman	Town of Biltmore Forest
Jackie W. Bryson, Secretary/Treasurer	Woodfin Sanitary Water & Sewer
Matt Ashley, Jr.	Town of Montreat
Joe Belcher	County of Buncombe
Jon E. Creighton	County of Buncombe
Ellen Frost	County of Buncombe
Esther Manheimer	City of Asheville
Chris Pelly	City of Asheville
Al P. Root	Town of Weaverville
Don Collins	Town of Black Mountain
Gwen Wisler	City of Asheville

Roberts & Stevens, P.A.	Legal Counsel
Cherry Bekaert LLP	Auditing Firm
McGill & Associates	Engineer of Record
Thomas E. Hartye, P.E.	General Manager
W. Scott Powell, CLGFO	Director of Finance

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Introductory

Metropolitan Sewerage District
OF BUNCOMBE COUNTY, NORTH CAROLINA

October 31, 2016

To the Metropolitan Sewerage District of Buncombe County, North Carolina
Board of Directors, Bondholders, and Customers

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Metropolitan Sewerage District of Buncombe County, North Carolina (MSD or District) for the fiscal year ended June 30, 2016. State law requires local governments to publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. MSD's Bond Order requires release of such audited financial statements within seven months of the close of the fiscal year. This CAFR presents MSD's financial statements, and adds this transmittal letter and statistical data to assist the reader in analyzing our financial statements.

This report consists of management's representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, MSD's management established an internal control framework designed both to protect the District's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, MSD's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Cherry Bekaert LLP, a firm of licensed certified public accountants, has audited the financial statements. The goal of the independent audit was to provide reasonable but not absolute assurance that MSD's financial statements for the fiscal year ended June 30, 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that MSD's financial statements for the fiscal year ended June 30, 2016, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Accounting standard (GASB No. 34) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A, which is placed immediately following the report of the independent auditors, and should be read in conjunction with it.

Accounting standard (GASB No. 44) calls for revised statistical reports designed to increase assistance to the reader in assessing the financial situation and condition of the District. Readers may note some changes in report formats from prior years. In addition, new schedules for which there is no information prior to implementation of GASB No. 34 may have less than the otherwise required ten years of comparative data.

Financial trend information is presented to assist readers in understanding and assessing how a government's financial position has changed over time. Revenue capacity information is intended to assist users in understanding and assessing the factors affecting a government's ability to generate revenues.

Debt capacity information is designed to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt. Demographic and economic information is intended to ❶assist users in understanding the socioeconomic environment within which a government operates and ❷provide information that facilitates comparisons of financial statement information over time and among governments. Operating information should provide contextual information about a government's operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition.

Profile of the District

A. Overview

The District was created by the state of North Carolina in 1962 to provide a wastewater treatment plant serving the City of Asheville and surrounding communities, including Biltmore Forest, Weaverville, Black Mountain, Montreat, Woodfin, the Woodfin Sanitary Water & Sewer District, and certain other unincorporated areas of Buncombe County. Through separate contractual arrangements, the District also serves customers in the Cane Creek Water and Sewer District in northern Henderson County and in the Avery

Creek Sanitary Sewer District in southern Buncombe County. The collection system has been extended over the years as a result of expansion and development, and now collects wastewater through approximately 1,000 miles of sewer line with 28,000 manholes and serves over 54,000 residential and commercial customers and over 20 significant industries.

The wastewater treated by the District is gathered in the collector sewer systems located primarily within the boundaries of the municipalities and other political subdivisions comprising the District and conveyed to the wastewater treatment plant through large sewer lines called interceptors that generally run parallel to the French Broad River, the Swannanoa River or one of their primary and secondary tributaries. Included in the system are remote pumping stations that pump wastewater through force mains where gravity flow is not feasible.

With the Sewer Consolidation, which was signed in 1990, the District agreed to take possession of and to operate, maintain, and repair or replace, as necessary, the various collector sewer systems, which were simultaneously deeded to MSD by these same political subdivisions. Many of the collector sewer systems were undersized, deteriorated, and inadequately maintained. Since taking over the sewer systems, the District has developed and implemented, with input from its member political subdivisions, an ongoing Capital Improvement Program (the "CIP"). Approximately 1,118,000 linear feet of existing sewer line have been replaced since consolidation, representing over 21.2% of the entire collection system. In addition, the District expects to replace another 250,000 feet of existing sewer lines over the next five years as mandated by our Collection System Permit. The District also has an aggressive program in effect for systematic preventative maintenance of collector sewers. The lines are first cleaned using water under high pressure and then are videotaped. The cleaning reduces line blockages and overflows, and the videotapes enable the District to locate and repair problems in the lines. The District cleans and inspects by videotaping between 15% and 20% of its system each year.

The District also owns, operates, and maintains a 40 million gallon per day (MGD) wastewater treatment plant to treat raw sewage and industrial wastewater as well as a hydroelectric facility, which is used primarily to generate power for the wastewater treatment plant, but also provides electricity for sale back to the local utility.

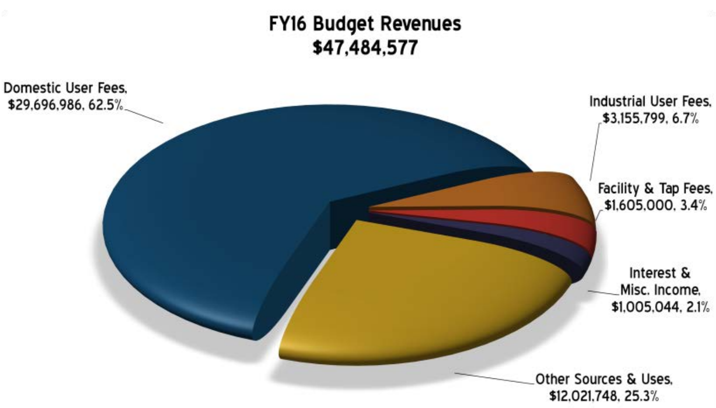
Member agencies providing water service include the sewer fees on their water bills and provide customer service and collection services to the District for a negotiated fee. However, the District direct bills about 425 customers, predominantly local industries, and private residences served by wells, yet connected to the sewer system.

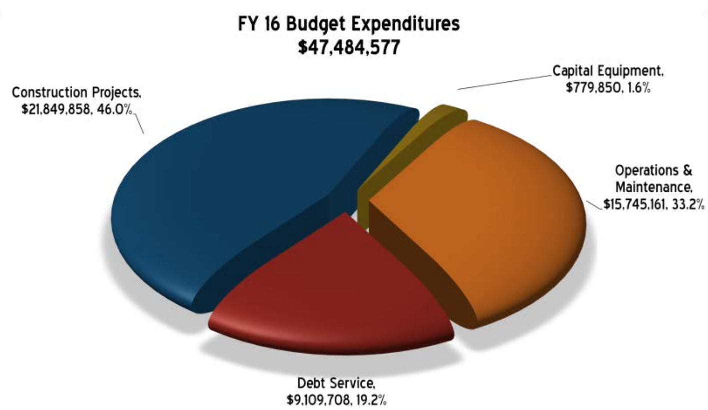
B. Budget

The annual budget serves as the foundation for the District's financial planning and control. The Bond Order requires that the District adopt its final budget on or before June 15 of each year after a preliminary budget hearing no more than 30 days prior to adoption. North Carolina General Statutes call for an annual balanced budget ordinance based upon expected revenues, along with a budget message, to be presented to the governing board no later than June 1. During the spring, District departmental staff work with the Board's Finance and Personnel Committees to develop an operational budget by function (administration, system services, plant operation, etc.), and District engineers work with the Board's Planning and Capital Improvement Plan Committees on a capital budget.

After the Board approves the budget, it is administered by Department heads who may make transfers of appropriations within a department and by the General Manager who may make transfers between departments.

Budget to actual comparisons of financial data for the year ended June 30, 2016 may be found in the supplemental information following the notes to the financial statements.





Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates.

A. Local Economy

The Asheville-Buncombe County area in which the District is located possesses a combination of characteristics that help protect it in the current economic climate. They consist of a re-emerging more technologically advanced industrial base, a strong tourism position, concentrated healthcare employment, manufacturing diversity, and positive population in-migration. These factors are discussed in further detail in the Management's Discussion and Analysis (MD&A).

Local economic development initiatives and various private/public programs have arisen in response to these recent developments designed to strengthen the local economy. Industrial recruitment, workforce development, urban revitalization, broadband access, and improvements to interstate highways are examples of active and pending projects. Area leaders realize the importance of cooperation and action to maintain a healthy, diverse, and sustainable economy.

While industrial usage is uniform, residential and commercial expansion has resulted in a higher demand for MSD services, as evidenced by growth in overall revenue, and especially by facility and tap fees directly resulting from new development.

The majority of new residents being District customers result from emphasis on in-fill development by local communities and large new subdivisions with developer-donated sewer infrastructure.

B. Long-Term Financial Planning

In 2001, the District completed a twenty-year Wastewater System Master Plan to identify system improvements needed to handle structural problems and wet-weather flow conditions, to improve the performance at the Water Reclamation Facility (WRF), and to prepare the system to handle expected future wastewater flows. In 2007, the District completed a Facility Plan, which specifically focused on the equipment and processes within the WRF. This plan established a methodology for prioritizing rehabilitation efforts at the plant.

In November 2008, the District's Collection System Master Plan was completed. This plan focuses on the orderly growth of the collection system into future service areas. As the sewer system grows over time, this plan will ensure that extensions of the system are made in an orderly fashion, in accordance with the planning policies of the District's member agencies.

In 2015, the District completed an update of its 2007 Facility Plan for the WRF. It focused on future regulatory requirements, the viability of existing processes, long-term costs, and needed performance. This comprehensive plan recommends various options for the future of the treatment plant, and will help the District continue to protect our local environment by implementing the latest technologies in a phased, cost-efficient manner. The short-term and mid-term projects are scheduled within the 10-year CIP. Design is currently underway, with construction beginning in fall 2016.

Using these plans as guides, District engineers developed a ten-year Capital Improvement Program (CIP), which is updated annually. The capital budgeting process begins with considering projects identified in these plans, as well as those recommended by various departments to deal with recurring wastewater collection and treatment problems. Engineering staff prioritize such projects, preparing cost estimates and a suggested timetable for construction. The CIP Committee, consisting of representatives from the District's member agencies, meets to review the program and to make recommendations to the Board concerning the CIP's adoption as part of the annual budget.

The CIP continues to have the largest impact on the District's current and future financial position. In connection with the long-term CIP, the District prepares a ten-year cash flow projection, which integrates revenue and expenditure projections with planned capital expenditures to anticipate rate increases and timing of debt issuance.

Major Initiatives and Accomplishments

Collection System & Plant Rehabilitation

The District maintains an aggressive, proactive rehabilitation program for both the regional 1,014-mile collection system and the treatment plant facility. MSD assumed ownership and maintenance of the local public collection systems in 1991, and since that time over $359 million has been re-invested back into the system.

Plant Headworks Project

The District completed its new Facilities Plan in 2015. This significant, comprehensive study examined the various unit processes within the plant, with a focus on headworks, biological treatment alternatives, and the future regulatory climate.

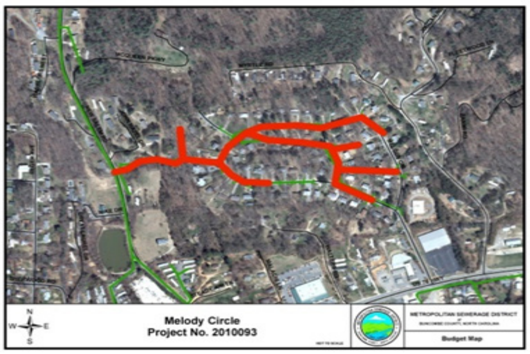
The Plant Headworks Project is the first recommendation of the Facilities Plan. Construction of this $11.5 million project is expected to begin in early 2017, and will provide new grit removal, a fine screening system, and storage for peak flows (using existing decommissioned digesters). Completion is expected in late 2018.

Incinerator System Emissions Upgrades

MSD Incineration Facility

The District recently completed significant upgrades for the plant's incinerator. This $7.5 million project has significantly improved the efficiency and performance of the system, and rehabilitated some of the older sections in need of replacement. Construction was completed in early 2016.

Melody Circle Sewer Rehabilitation Project



Melody Circle Sewer Project

The District rehabilitates approximately 50,000 linear feet (LF) of public sewer line each year. One of the larger sewer rehabilitation projects this past year was the "Melody Circle" project, which is located in the Swannanoa area of Buncombe County. The pipe in this area was in poor structural condition, triggering numerous maintenance calls. This project was over 4,500 LF.

New Salem Road Sewer Rehabilitation Project

Another significant sewer rehabilitation project this past year was the "New Salem Road" project, which is located in Swannanoa, directly adjacent to the Melody Circle project shown above. This project was over 3,700 LF, which included over 2,900 LF of trenchless lining.

New Salem Road Sewer Project

Significant Reduction of Sanitary Sewer Overflows

Example of Stream Crossing

Reduction of Sanitary Sewer Overflows (SSO's) is one of the District's primary goals related to the collection system. This has been accomplished by aggressive rehabilitation and preventative maintenance (line cleaning) programs. Over the past twelve years, the District has realized a significant reduction of SSO's – from 289 in FY2000 to 53 in FY2016.

Management Award Recognition

The District was recognized once again for outstanding wastewater treatment efforts by the National Association of Clean Water Agencies (NACWA) and received the prestigious NACWA Gold Award signifying consistent NPDES permit compliance during the 2015 calendar year. This marks the fifteenth consecutive year the District has been honored with a "Peak Performance Award" representing continued excellence in environmental protection.

NACWA has established the Excellence in Management Recognition Program to recognize public clean water utilities that implement progressive management initiatives and thereby advance the goals of the Clean Water Act. NACWA is committed to clean water and a healthy environment and strives to help ensure that member agencies have the tools they need to meet these objectives. MSD received this award in 2015.

Improved Customer Service Response

The Systems Services Department reclassified a management position to that of a first responder to handle emergency calls between 2:00 p.m. and 10:30 p.m. as well as holidays, which reduced average response time from 90 minutes in FY2006 to 33 minutes in FY2016.

Environmental Regulations Compliance

The District received favorable regulatory reports from the North Carolina Department of Environment and Natural Resources for wastewater discharge, pretreatment, collections system, and air quality permits. In addition, the District maintained ISO 14001 Environmental compliance certification.

The current MSD Collection System permit has been submitted to the North Carolina Department of Environmental and Natural Resources. The planned footage for the new permit cycle requires replacement or rehabilitation of at least 250,000 LF of sewer main over a five-year period. In FY2016, the District completed approximately 43,000 LF.

View of the MSD Treatment Facility

Another requirement of the annual Collection Systems permit is to perform preventative maintenance on at least 500,000 linear feet of sewer line. During the current year, the District cleaned over 793,000 linear feet.

Continuing Disclosure Obligation

The District issued revenue bonds most recently in May 2014. In accordance with the requirements of the Securities Exchange Commission Rule 15C-12, as amended, and the North Carolina Local Government Commission, the District will provide continuing disclosure information to recognized municipal security information repositories. This will include the audited financial statements, historical net revenues and debt coverage, future rate increases and listing of the District's largest commercial and industrial customers.

Financial Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Metropolitan Sewerage District of Buncombe County, North Carolina for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. This was the twenty-first consecutive year that the District has achieved this prestigious award. In order to receive a Certificate of Achievement award, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the District also received the GFOA's Distinguished Budget Presentation Award for its annual 2016 budget document. In order to qualify for the Distinguished Budget Presentation Award, the District's budget document was judged proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device. This was the eighteenth consecutive year that the District has achieved this award.

Acknowledgments

The preparation of this report could not have been accomplished without the dedicated services of staff throughout the District and the District's independent auditor, Cherry Bekaert LLP. We would like to acknowledge the hard work and dedication of Cheryl Rice, the District's Accounting Manager. In addition, a special thanks to Teresa Gilbert who assembled the CAFR documents and prepared many of the graphs and to Asheville Chamber of Commerce for current economic data and insightful identification of business trends.

We also would like to thank the members of the Finance Committee and Board for their support of maintaining high standards of fiscal accountability and responsibility for the District.

Respectfully Submitted,

Thomas E. Hartye, P.E.
General Manager

W. Scott Powell, CLGFO
Director of Finance

Certificate of Achievement

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metropolitan Sewerage District

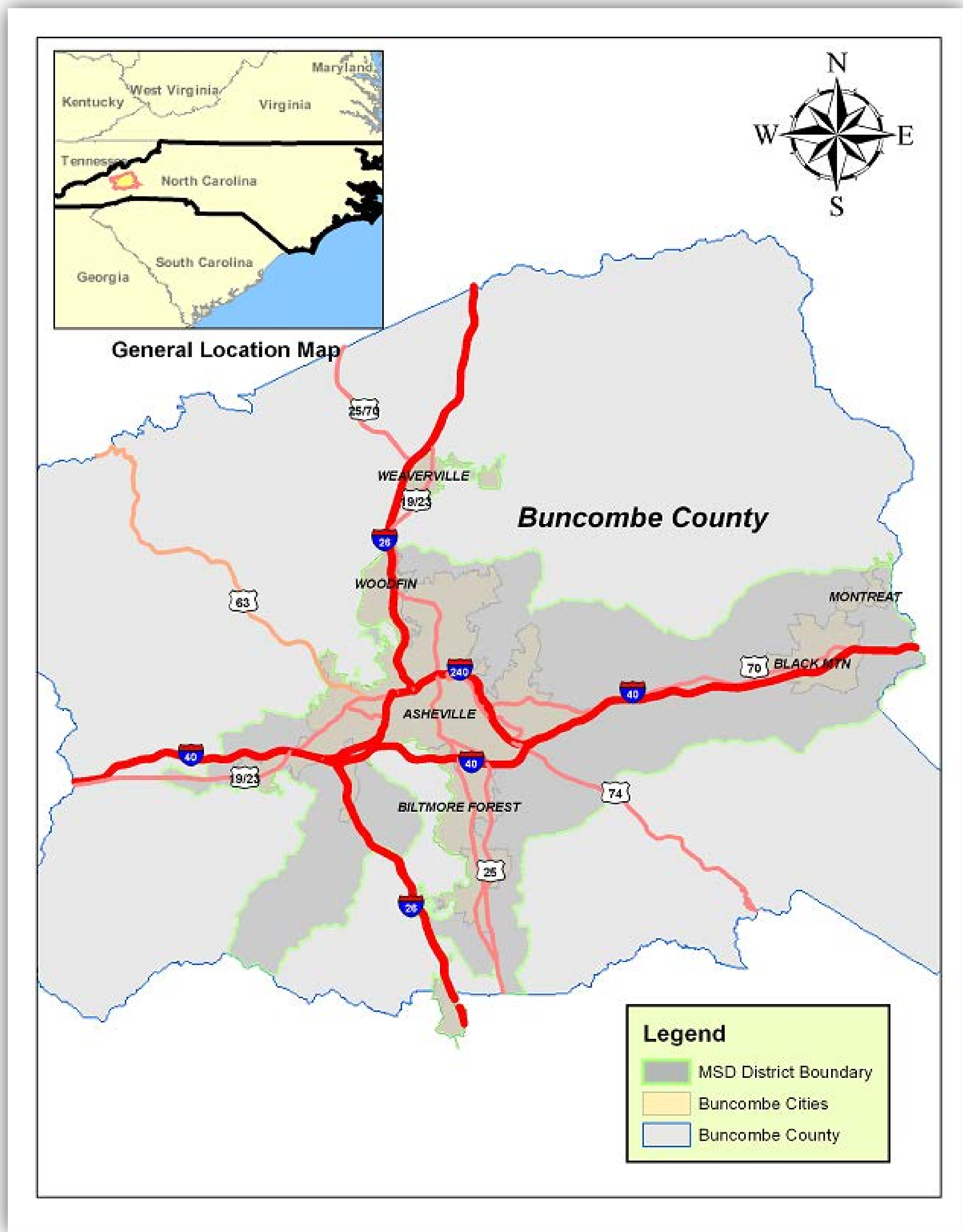
of Buncombe County, North Carolina

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

Map of District Boundary



Principal Officials

Board Members	**Representative of**
Matt Ashley, Jr.	Town of Montreat
Jackie W. Bryson	Woodfin Sanitary Water & Sewer District
Joe Belcher	County of Buncombe
Jon Creighton	County of Buncombe
Ellen Frost	County of Buncombe
E. Glenn Kelly	Town of Biltmore Forest
Esther Manheimer	City of Asheville
Chris Pelly	City of Asheville
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Thomas E. Hartye, P.E.

Director of Finance
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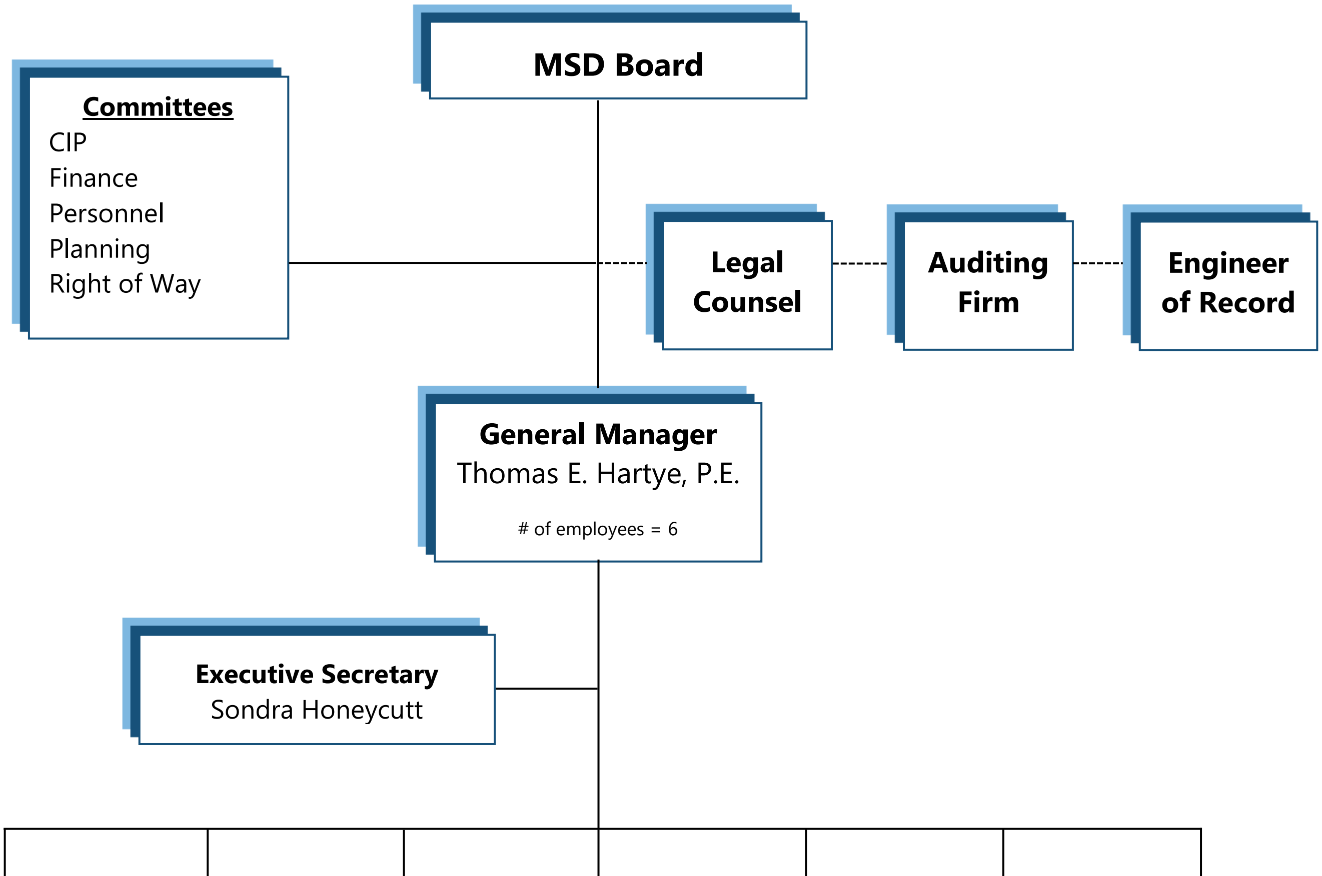
Organizational Chart



Engineering	Financial Services	Human Resources	Information Technology	System Services Construction	System Services Maintenance	Waste Treatment & Maintenance
Director Ed Bradford, P.E.	Director W. Scott Powell, CLGFO	Director James Hemphill	Director Matthew Walter	Director Mike Stamey, P.E.	Director Ken Stines	Director Peter Weed
Project Mgmt. Design/Drafting Construction Right-of-Way Allocations Taps Sewer Expansion	Accounting Investments Cash Flow Mgmt. Finance Budget Purchasing Warehouse	Employee Relations Payroll Employee Benefits Environmental Health & Safety	IT MIS GIS	Construction Emergency Maintenance	Preventative Maintenance Technical Services Pump Station Maintenance	Operations Industrial Waste Electrical Mechanical Facilities Maint Fleet Maint Financial Forecasting
# of employees = 21	# of employees = 9	# of employees = 6	# of employees = 10	# of employees = 28	# of employees = 28	# of employees = 39

Number of Employees: 147

Employee/Representative (solid line) Contractors (dashed line)

Financial

Report of Independent Auditor

The Board of Directors
Metropolitan Sewerage District of Buncombe County, North Carolina
Asheville, North Carolina

Report on Financial Statements

We have audited the accompanying financial statements of Metropolitan Sewerage District of Buncombe County, North Carolina (the "District") which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplemental financial data, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental financial data is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Charlotte, North Carolina
October 31, 2016

Management's Discussion and Analysis

As management of the Metropolitan Sewerage District of Buncombe County (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016.

Financial Highlights

A. Net Position

Net Position is defined as the value of all assets, plus deferred outflows of resources, less all liabilities and deferred inflows of resources. Restricted net position is restricted by law, bond covenant, or other contractual arrangement, less debt incurred. The financial well-being of a government is reflected to a large degree by the growth of net position.

- The District's net position totals $360.6 million and reflects a $16.2 million or 4.7% increase from the prior year. The income and expense items affecting this improvement will be discussed in greater detail in the section below titled Financial Analysis of the District.

- The $16.2 million increase is attributable to the District's normal operations and includes contributed capital assets from developers of $2.4 million.

- Net investment in capital assets increased by $19.9 million or 6.9% evidencing the District's continued rehabilitation of infrastructure as well as an increase in developer donated sewer lines.

B. Outstanding Debt

- After principal repayments of $6.1 million, the District has approximately $95.4 million of outstanding debt exclusive of related unamortized discounts and premiums.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: ❶the financial statements and ❷notes to the financial statements that explain in more detail some of the information in the financial statements. After the notes, supplemental information is provided to show details about the District's fund structure as set forth in the Bond Order. Budgetary information required by the North Carolina General Statutes also can be found in this part of the statements.

Basic Financial Statements

The financial statements of the District report information about the District using accounting methods similar to those used by private-sector companies. There are three required statements, which provide both long-term and short-term information about the District's overall financial status.

The Statement of Net Position presents information on all of the District's assets, plus deferred outflows of resources, less liabilities, and deferred inflows of resources with the difference reported as net position. This statement provides information about the types and amounts of resources (assets), deferred outflows of resources, and the obligations to the District's employees and creditors (liabilities) and may be used to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing liquidity and financial flexibility.

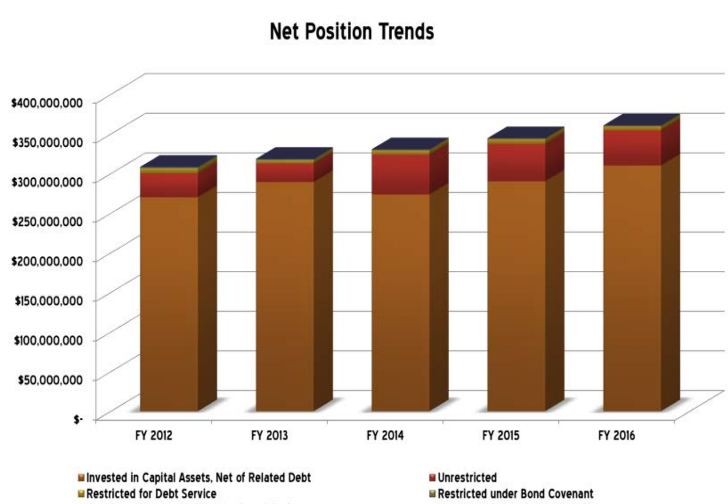
The Statement of Revenues, Expenses, and Changes in Net Position presents the current year's results of operations and can be used to determine how successful the District has been in collecting revenues, controlling expenses, and recovering costs through user fees and charges.
The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and related financing activities, and may be used to determine how cash originated, what that cash was used for, and how these activities resulted in the change to cash balance during the year.

These financial statements should be evaluated with other external factors such as economic conditions, regional employment statistics, and population growth for a more complete analysis of the District's current and future financial condition.

Financial Analysis of the District

A. Net Position

As previously noted, net position may serve over time as one useful indicator of an entity's financial condition. The District's assets plus deferred outflows of resources exceeded liabilities by $360.6 million at June 30, 2016. The largest proportion of the District's net position, approximately 86%, reflects the District's net



investment in capital assets (e.g. land, buildings, interceptor and collector sewer lines, treatment facilities, equipment, etc.), less any related debt outstanding that was issued to acquire these items. As these assets are required to provide wastewater collection and treatment services, these resources are not available for future spending. Although the District's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources as the capital assets cannot be used to liquidate these liabilities. An additional $6.1 million or 1.7% of the District's net position are funds restricted by the Bond Order to be held in reserve for either debt service or for emergency capital equipment repair or replacement. The remaining balance of $44.2 million is unrestricted and may be used to fund pay-as-you-go capital projects, medical or workers' compensation claims, replacement reserves, or any other legal purpose.

The District's overall financial position improved during the fiscal year ended June 30, 2016 as overall net position grew by 4.7%. The District's financial strategy is to set rates at a level sufficient to cover operating and debt service expenses as well as to provide about half of the funding for pay-as-you-go infrastructure rehabilitation. The success of this approach is visible in the continuing growth of the District net position. Current assets will decrease gradually as cash and investments are used to rehabilitate infrastructure, until the next planned revenue bond issuance.

Table 1—Condensed Statements of Net Position

	FY 2016	FY 2015	% Increase (Decrease) 2016 Versus 2015
Current and Other Assets	$ 56,735,457	$ 62,192,180	(8.77%)
Capital Assets, net	407,905,504	394,654,963	3.36%
Total Assets	464,640,961	456,847,143	1.71%
Deferred Outflows of Resources	8,556,486	7,568,857	13.05%
Long-Term Liabilities Outstanding	102,928,993	107,144,421	(3.93%)
Other Liabilities	9,382,373	11,056,376	(15.14%)
Total Liabilities	112,311,366	118,200,797	(4.98%)
Deferred Inflows of Resources	293,097	1,790,947	(83.63%)
Net Position:			
Net Investment in Capital Assets	310,277,965	290,329,700	6.87%
Restricted for:			
Debt Service	5,130,843	5,981,900	(14.23%)
Bond Covenant	956,806	948,386	0.89%
Unrestricted	44,227,370	47,164,270	(6.12%)
Total Net Position	$ 360,592,984	$ 344,424,256	4.69%

The Condensed Statement of Revenues, Expenses, and Changes in Net Position shown in Table 2 below provides information concerning what contributed to the net changes reported in Table 1.

Table 2—Condensed Statements of Revenues, Expenses, and Changes in Net Position

	FY 2016	FY 2015	% Increase (Decrease) 2016 Versus 2015
Operating Revenues:			
Sewer Charges	$ 33,679,560	$ 32,617,886	3.25%
Facility and Tap Fees	6,324,596	4,311,259	46.70%
Miscellaneous	764,928	757,619	0.96%
Total Operating Revenues	40,769,084	37,686,764	8.18%
Operating Expenses:			
Salaries and Employee Benefits	7,183,043	6,758,251	6.29%
Contractual Services	1,472,795	1,398,288	5.33%
Utilities	1,058,299	1,144,711	(7.55%)
Repairs and Maintenance	998,758	938,977	6.37%
Other Supplies and Expenses	1,500,249	1,545,531	(2.93%)
Insurance Claims and Expenses	2,990,973	2,682,426	11.50%
Depreciation	9,332,957	8,543,402	9.24%
Total Operating Expenses	24,537,074	23,011,586	6.63%
Operating Income	16,232,010	14,675,178	10.61%
Nonoperating Revenues (Expenses):			
Investment Income	237,604	209,220	13.57%
Interest Expense	(3,139,196)	(3,352,099)	(6.35%)
Less Capitalized Interest	552,526	580,574	(4.83%)
Gain (Loss) on Sale of Surplus Property	(106,997)	17,258	(519.98)
Total Nonoperating Revenues (Expenses)	(2,456,063)	(2,545,047)	(3.50%)
Income before other transactions	13,775,947	12,130,131	13.57%
Capital Contribution	2,392,781	3,078,520	(22.27%)
Change in Net Position	16,168,728	15,208,651	6.31%
Total Net Position, beginning of year			
As previously reported	344,424,256	330,330,198	
Cumulative affect of accounting change	-	(1,114,593)	
As restated	344,424,256	329,215,605	4.62%
Total Net Position, end of year	$ 360,592,984	$ 344,424,256	4.69%

The section below discusses significant factors contributing to the District's 4.7% increase in net position from $344.4 million to $360.6 million.

B. Operating Revenues

- Sewer revenues increased 3.25%. The District raised domestic sewer rates by 2.5% at the beginning of the fiscal year and experienced an approximate 0.8% increase in residential consumption as well as an approximate 1.8% increase in commercial consumption.

- Facility and tap fees increased 46.7% from the previous year reflecting an increase in development in the area.

C. Operating Expenses were kept fairly flat with the exception of:

- **Salaries and Employee Benefits**—The District experienced a 6.29% increase in current year expense due to a 3.0% salary adjustment for employees as well as 536.7% increase in pension expense associated to the statewide Local Governmental Employees Retirement System.

- **Utilities Expense**—An increase in internally generated hydroelectric power attributed to the 7.55% decrease in current year expenses.

- **Insurance Claims and Expenses**—The District experienced a 11.5% increase in current year expense due to having a number of high dollar claims at the end of the current year.

D. Investment Income—Increasing short-term interest rates resulted in the 13.57% increase in the District's interest income.

E. Interest Expense—Interest expense decreased due to the reduction of outstanding debt.

F. Capitalized Interest—Interest capitalized on rehabilitated infrastructure is computed based on construction-in-progress beginning balances plus additions during the year.

G. Capital Contribution—The amounts reported as capital contributions represent the estimated fair market value of donated sewer collection lines by developers and member agencies. The District has no direct control over the amount of contributions received. These amounts are reflected as equal income and capital expenditures in the financial statements.

Capital Asset and Debt Administration

A. Capital Assets

The District owns capital assets with a historical cost of $567,210,703. These assets consist of land (including easements), improvements including a hydroelectric dam, buildings, collector sewer lines, interceptor lines (large pipelines into which collector sewer lines feed), construction equipment and machinery, service vehicles, office machines, and computer hardware and software. The District has begun several projects expected to cost $50.9 million to complete, and at June 30, 2016, was committed to contracts expected to cost $1 million.

Major capital asset transactions during the year include:

- Rehabilitation of over 57,858 feet of sewer line including:
  - Broadview Avenue
  - Shadowlawn Drive
  - Hilliard St. @ Aston Park
  - Melody Circle GSR
  - Influent Pump Replacement
  - RBC Replacement
  - Incinerator System Upgrade

Table 3—Capital Assets

	FY 2016	FY 2015
Land	$ 2,515,666	$ 2,515,666
Easements	8,828,919	8,278,294
Improvements Other than Buildings	5,924,147	5,744,542
Buildings	48,903,454	48,895,532
Machinery and Equipment	75,725,979	70,072,363
Interceptor Sewer Lines	112,335,991	112,335,991
Collector Sewer Lines	308,625,645	294,344,620
Construction in Progress	4,350,902	8,550,739
Subtotal	567,210,703	550,737,747
Less: Accumulated Depreciation	(159,305,199)	(156,082,784)
Net Property, Plant and Equipment	$ 407,905,504	$ 394,654,963

More detailed information on the District's capital assets is presented in Note 4 to the financial statements.

B. Debt Administration

At June 30, 2016, the District had $95,313,540 in par value of outstanding debt. Unlike cities and counties, the District does not have a debt limit. However, the District's Bond Order requires that user rates be set to achieve a minimum debt service coverage ratio of 1.2 annually. This means that in any year, after the District pays all current operating expenses, the net revenues remaining must be at least 120% of that year's principal and interest payments.

The District holds an Aa1 rating from Moody's Investor Service, an AA+ rating from Standard & Poor's, and an AA+ rating from Fitch. These high ratings allow the District to pay a lower rate of interest than other entities with less favorable ratings.

Further details on long-term debt are provided in Note 3 to the financial statements.

Economic Factors and Next Year's Budget and Rates

The District, located in Buncombe County within the Asheville metropolitan area, has been in a better economic position than many other communities in the state and the nation due to several key factors.

A. Unemployment—From 2003 through 2016, Asheville's unemployment rate has been among the lowest compared to the other ten metropolitan areas in North Carolina. As of June 2016, Asheville's unemployment rate was 4.1%. This holds well below the state and national averages of 5.2% and 5.1% respectively. Over the past year, about 2,700 jobs have been added to the economy increasing current employment to 185,600.

B. Balanced Economic Growth—The Asheville metropolitan area has developed a unique and balanced economy based on several key drivers. Actions of each driver can overlap and support other drivers in the local economy. History has also shown that a period of weakness for one driver can lead to the expansion of another.

Key drivers include:

- Specialized health care industry
- Stable tourism activity
- Restructured manufacturing sector
- Baby-boom fueled population growth
- Resilient housing market
- Growing professional services sector

  - **Local healthcare employment**—At over 35,900 workers, health services is now the largest industry sector in the Asheville metropolitan area. Ambulatory health services are the chief source of the new jobs. Strong gains in well-paying health services had softened earlier losses in the traditional manufacturing sector. Historically, stable growth in local healthcare services has had an average annual rate of 2% to 4%. This is due to the concentration of tertiary care facilities and the in-migration of baby-boomers and retirees. Future growth in local healthcare services is expected to be at a more moderate rate due to the national economic downturn.

- **Manufacturing employment**—Recent economic indicators suggest job loss in manufacturing has been impacted by the 2008 recession. Industry did experience a nominal increase in the current year. With 19,900 workers, the industry continues to be transformed into a high-skilled sector restructured around an advanced group of machinery, plastics, and electronics manufacturers.

- **Continued moderate population growth**—Population growth remains a consistent and stable contributor to the local economy. Estimates indicate moderate growth patterns will continue between 1.5% and 2.0% per year. More than 95% of local population growth is from in-migration, with the remaining from births over deaths.

- **Residential Building**—Asheville is a lull in the residential market. Currently, home sales are up 20.4% with the average price increased over 4.1%. In addition, nearly 1,049 new residential building permits were issued in 2016. This is a 4.9% increase over the previous year.

- **Professional and Business Sector**—The confluence of retiring baby-boomers, local quality of life, and economic growth has resulted in the emergence of a growing professional and business services sector. This sector experienced a 6.0% increase over the previous year. The sector includes many highly technical and well-paid services such as engineering and computer design, and temporary employment services.

The major economic challenge facing the District is the decline of traditional industry in the area, especially textiles. However, the loss in industrial sewer revenues is expected to be offset from the growing numbers of domestic customers and increased consumption rates.

Based on the District's projections for residential, commercial, and industrial sewer use, sewer rates will increase by 2.5% for the fiscal year ending June 30, 2017 to provide adequate funding for operations, debt service, and the District's long-term Capital Improvement Program.

Requests for Additional Information

This report is designed to provide an overview of the District's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to W. Scott Powell, Director of Finance, Metropolitan Sewerage District of Buncombe County, 2028 Riverside Drive, Asheville, NC 28804, (828) 255-8211, or spowell@msdbc.org.

Statement of Net Position-June 30, 2016

Assets:		
Current assets:		
Cash and cash equivalents	$	27,169,542
Investments		15,500,938
Restricted cash and cash equivalents		6,589,803
Receivables (net):		
Accounts		5,659,688
Sales		358,278
Employee		20,002
Interest		18,549
Inventories		339,409
Prepaid expenses		122,442
Total current assets		55,778,651
Noncurrent assets:		
Restricted cash and cash equivalents		956,806
Capital assets:		
Land		2,515,666
Easements		8,828,919
Plant and equipment		551,515,216
Construction in progress		4,350,902
Less: accumulated depreciation		(159,305,199)
Total property and equipment		407,905,504
Total noncurrent assets		408,862,310
Total assets		464,640,961
Deferred outflows of resources:		8,556,486
Liabilities:		
Current liabilities:		
Payments from current assets:		
Accounts payable and accrued expenses		2,615,588
Current portion of compensated absences payable		32,000
Payments from restricted cash and cash equivalents:		
Bond interest payable		1,458,960
Current portion of long-term obligations		5,275,825
Total current liabilities		9,382,373
Noncurrent liabilities:		
Compensated absences, net of current portion		799,867
Other post-employment benefits		1,286,300
Net pension liability		563,911
Derivative liability		5,745,720
Long-term obligations, net of current maturities		94,533,195
Total noncurrent liabilities		102,928,993
Total liabilities		112,311,366
Deferred inflows of resources:		293,097
Net position:		
Net investment in capital assets		310,277,965
Restricted for:		
Debt service		5,130,843
Bond covenant		956,806
Unrestricted		44,227,370
Total net position	$	360,592,984

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

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2016

Operating revenues:		
Sewer charges	$	33,679,560
Facility and tap fees		6,324,596
Miscellaneous		764,928
Total operating revenues		40,769,084
Operating expenses:		
Salaries and employee benefits		7,183,043
Contractual services		1,472,795
Utilities		1,058,299
Repairs and maintenance		998,758
Other supplies and expenses		1,500,249
Insurance claims and expenses		2,990,973
Depreciation		9,332,957
Total operating expenses		24,537,074
Operating income		16,232,010
Nonoperating revenues (expenses):		
Investment income		237,604
Interest expense		(2,586,670)
Gain (loss) on disposal of surplus property		(106,997)
Total nonoperating revenues (expenses)		(2,456,063)
Income before contributions		13,775,947
Capital contribution		2,392,781
Change in net position		16,168,728
Total net position, beginning of year		344,424,256
Total net position, end of year	$	360,592,984

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

Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Cash received from customers	$ 40,355,082
Sales tax paid	(32,370)
Cash paid to employees for services	(6,246,862)
Cash paid for goods and services	(9,189,407)
Other operating revenue	765,823
Net cash provided by operating activities	25,652,266
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(20,399,988)
Proceeds from sale of surplus property	22,224
Principal paid on bond maturities	(6,135,825)
Interest paid on bond maturities	(3,799,727)
Net cash used by capital and related financing activities	(30,313,316)
Cash flows from investing activities:	
Proceeds from sale of Investments	68,482,071
Purchases of investments	(58,985,271)
Income on investments	632,624
Net cash provided by investing activities	10,129,424
Net increase (decrease) in cash and cash equivalents	5,468,374
Cash and cash equivalents, July 1	29,247,777
Cash and cash equivalents, June 30	$ 34,716,151
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 16,232,010
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	9,332,957
Changes in assets and liabilities:	
Increase in receivables	319,451
Increase in inventory	2,645
(Increase) in prepaid items	(23,644)
(Increase) in accounts payable and accrued expenses	(82,795)
Increase in other post-employment benefits	72,800
Increase in accrued compensated absences	24,623
Decrease in net pension asset	734,825
(Increase) in deferred outflows of resources - pensions	(26,667)
Increase in net pension liability	563,911
(Decrease) in deferred inflows of resources - pensions	(1,497,850)
Total adjustments	9,420,256
Net cash provided by operating activities	$ 25,652,266

Noncash investing, capital, and financing activities:

1. At various times during the year ended June 30, 2016 the District received contribution of sewer lines constructed by developers with a reported estimated fair value of $2,392,781.

2. During the year ended June 30, 2016, a total of $11,575 of unrealized appreciation increased the fair value of investments not considered to be cash equivalents.

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

Notes to Basic Financial Statements
June 30, 2016

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Metropolitan Sewerage District of Buncombe County, North Carolina (District) conform to generally accepted accounting principles as applicable to enterprise-type governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The District is a public body and body politic and corporate of the State of North Carolina, created pursuant to the North Carolina Metropolitan Sewerage Districts Act (Article 5, Chapter 162A of the General Statutes of North Carolina, as amended). The District was established in 1962 by the North Carolina State Stream Sanitation Committee for the purpose of constructing and operating facilities for sewage treatment within the political subdivisions serviced by the District as listed below.

City of Asheville
Beaverdam Water and Sewer District
Town of Biltmore Forest
Town of Black Mountain
Busbee Sanitary Sewer District
Caney Valley Sanitary Sewer District
Crescent Hill Sanitary Sewer District
Woodfin Sanitary Water and Sewer District
Town of Montreat
Enka-Candler Water and Sewer District
Fairview Sanitary Sewer District
Skyland Sanitary Sewer District
Swannanoa Water and Sewer District
Town of Weaverville
Venable Sanitary District

Under the North Carolina Metropolitan Sewerage Districts Act, the District is authorized, among other things, to: **(a)** acquire, construct, improve, extend, maintain, and operate any sewerage system or part thereof (including facilities for the generation and transmission of electric power and energy) within or without the District; **(b)** to issue revenue bonds to pay the costs of any of the foregoing; and **(c)** to set and collect rents, rates, fees and other charges for provision of sewerage services and the use of any District facilities.

The District Board consists of twelve members appointed as follows: three from the County of Buncombe, three from the City of Asheville, and one each from Woodfin Sanitary Water & Sewer District, and the Towns of Biltmore Forest, Black Mountain, Montreat, Woodfin, and Weaverville.

The District owns, operates, and maintains a wastewater treatment plant as well as the related network of collector and interceptor sewers. The treatment plant has a capacity to treat up to 40 million gallons per day, but currently receives an average of 23.6 million gallons per day from approximately 53,800 residential and commercial customer accounts transported through approximately 1,000 miles of collector sewers.

The District's basic financial statements include all transactions of the District for which the District is financially accountable. Financial accountability is defined as appointment of a majority of a component unit's board and either the ability to impose the will of the District or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the District. Based on these criteria, the District has determined that there are no component units, which come under the criteria for inclusion. The District is not a component unit of any other governmental entity.

B. Basis of Presentation—Fund Accounting

The accounts of the District are organized and operated on the basis of funds in accordance with the District's Bond Order. A Fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The District presents the basic financial statements on an enterprise fund basis. The Enterprise Fund accounts for those operations **(a)** that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that 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 **(b)** where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, and other purposes.

C. Measurement Focus and Basis of Accounting

The proprietary fund is accounted for on the flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary Funds are presented in the financial statements on the accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period they are incurred.

D. Budgetary Data

Budgets are adopted as required by state statute and in compliance with the Bond Order. All annual appropriations lapse at fiscal year-end. The budget is prepared using the modified accrual basis of accounting, which is consistent with the accounting system used to record transactions during the fiscal year. Expenditures may not legally exceed appropriations at the functional level. Management is authorized to transfer appropriations within a department; however, any revisions that alter total expenditures of any function must be approved by the governing board. There were no budget amendments.

As required by North Carolina State law [G.S. 159-26(d)], the District maintains encumbrance accounts, which are considered to be “budgetary accounts.” Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in progress at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

E. Deposits and Investments

All deposits of the District are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The District may designate as an official depository any bank or savings and loan association whose principal office is located in North Carolina. In addition, the Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the District to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina, (the “State”); bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers’ acceptances and the North Carolina Capital Management Trust (NCCMT).

The District’s Bond Order limits investments to:

a. government obligations;

b. obligations of the following agencies: Federal Financing Bank, Federal Home Loan Banks; Federal Home Loan Mortgage Corporation (except for stripped mortgage securities which are purchased at prices exceeding their principal amounts), The

Federal National Mortgage Association (except for stripped mortgage securities which are purchased at prices exceeding their principal amounts), the Government National Mortgage Association, the Federal Housing Administration and the Farmers Home Administration;

c. direct general obligations of the State secured by the full faith and credit and taxing power of the State rated in one of the two highest rating categories by Moody's and S&P;

d. bonds and notes of any North Carolina local government or public authority (other than the District), subject to such restrictions as the Secretary of the Local Government Commission may impose, provided such bonds or notes are rated in one of the two highest rating categories by Moody's and S&P;

e. savings certificates or certificates of deposit issued by any commercial bank or savings and loan association organized under the laws of the State or in any federal bank or savings and loan association having its principal office in the State; provided, however, that any principal amount of such certificates in excess of the amount insured by the federal government or any agency thereof; or by a mutual deposit guaranty association authorized by the Administrator of the Savings Institutions Division of the Department of Commerce of the State, be fully collateralized by obligations reserved by financial institution;

f. prime quality commercial paper (having original maturities of not more than 270 days) bearing the highest rating of Moody's and S&P and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation;

g. participating shares in the cash portfolio of North Carolina Capital Management Trust, provided that the investments of such fund are limited to those qualifying for investment under this definition and that said fund is certified by the Local Government Commission;

h. a commingled investment pool established and administered by the State Treasurer pursuant to G. S. 147-69.3;

i. repurchase agreements with respect to Government Obligations if entered into with certain restrictions;

j. any other investment now or hereafter permitted for investment of funds by the District by the General Statutes of North Carolina, including, without limitation, Section 159-30 of the General Statutes of North Carolina.

The District's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a – 7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earnings and investment contracts are reported at cost.

F. Restricted Assets and Liabilities

Any unexpended bond proceeds from the revenue bonds issued by the District are classified as restricted assets because their use is completely restricted to the purpose for which the bonds were originally issued. Cash and investments included in the District's bond service and debt service reserve accounts are classified as restricted because their use is completely restricted for reserves and debt service of the outstanding bonds. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Any amounts payable from restricted assets are considered restricted liabilities. At June 30, 2016, the bond interest payable of $1,458,960 and the current portion of long-term debt of $5,275,825 represents total restricted liabilities of the District.

G. Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated based on the percentage of receivables that were written off in prior years. The allowance was $1,257,101 as of June 30, 2016.

H. Inventories

Inventories consist of materials and supplies held for consumption and expensed as used. Inventories are valued at cost (first-in, first-out) which approximates market.

I. Capital Assets

Capital assets, primarily property and equipment, are recorded at original cost at acquisition or construction. Donated capital assets received prior to July 1, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after July 1, 2015 are recorded at acquisition value. Any interest incurred during the construction phase of capital assets is reflected in the capitalized value of the assets constructed. Assets costing at least $15,000 and with a useful life of over one year are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed on the straight-line basis. Assets are depreciated based on useful life estimated by District engineers as follows; see Note 5 for further details.

Buildings/Waste Treatment Plants	50 years	Lab Equipment	5-10 years
Improvements other than Buildings	10-50 years	Maintenance Equipment	5-10 years
Waste Treatment/Pumping Stations Machinery	10-15 years	Automobiles/Trucks	5-10 years
Interceptor Sewer Lines	50-100 years	Communication Equipment	5-10 years
Collector Sewer Lines	50-100 years	Computer Equipment/Software	3-5 years
Office Furniture/Fixtures	10 years		

J. Deferred Outflows of Resources/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and therefore will not be recognized as an expense or expenditure until that period. The District has three items that meet this criterion - unamortized bond refunding charges, accumulated decrease in fair value of hedging derivative, and contributions made to the pension plan in the 2016 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District has one item that meets the criterion for this category - deferrals of pension expense that result from the implementation of GASB Statement 68.

K. Compensated Absences

The vacation policy of the District provides for the accumulation of up to forty (40) days earned vacation leave with such leave being fully vested when earned. Accordingly, an expense and a liability for compensated absences and any salary-related payments such as retirement contributions and payroll taxes are recorded. Accumulated earned vacation at June 30, 2016 is $831,867 and is included in accrued expenses. See Note 3D for further details.

The District's sick leave policy provides for an unlimited accumulation of earned sick leave. Accumulated sick leave at June 30, 2016 amounts to approximately $2.69 million. Sick leave does not vest but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the District has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

L. Cash Equivalents

For the purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

M. New Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. Those statements, which may have a future impact on the District, include:

- **Statement No. 74**, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* will be effective for the District's fiscal year beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

  This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

- **Statement No. 75**, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

Statement No. 75*, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* will be effective for the District's fiscal year beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

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, for OPEB*. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, 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. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

- **Statement No. 77,** *Tax Abatement Disclosures* will be effective for the District's fiscal year beginning after December 15, 2015. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand ❶how tax abatements affect a government's future ability to raise resources and meet its financial obligations and ❷the impact those abatements have on a government's financial position and economic condition.

- **Statement No. 78**, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* will be effective for the District's fiscal year beginning after December 15, 2015. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

  This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that **(1)** is not a state or local governmental pension plan, **(2)** is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and **(3)** has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

- **Statement No. 80**, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* will be effective for the District's fiscal year beginning after June 15, 2016. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*.

  This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

- **Statement No. 81**, *Irrevocable Split-Interest Agreements* will be effective for the District's fiscal year beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

- **Statement No. 82**, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* will be effective for the District's fiscal year beginning after June 15, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding **(1)** the presentation of payroll-related measures in required supplementary information, **(2)** the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and **(3)** the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

N. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

O. Operating and Nonoperating Revenues and Expenses

The District defines operating revenue and expenses as those directly received and incurred in the process of providing wastewater collection and treatment. Nonoperating revenues and expenses are those resulting from incidental functions such as investment income, interest expense on long-term debt, and sale of surplus equipment.

P. Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The District's employer contributions are recognized when due and the District has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

Note 2—Deposits and Investments

A. Deposits

All of the District's deposits are either insured or collateralized by using the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the District, these deposits are considered to be held by the District's agent in the District's name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the District or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the District under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows.

However, the State Treasurer enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method and the District relies on the State Treasurer to monitor those financial institutions. The District's formally adopted investment policy attempts to mitigate custodial credit risk for deposits by pre-qualifying the financial institutions receiving funds. The District also complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2016, the District's deposits had a carrying amount of $1,886,527 and a bank balance of $2,091,344. Of the bank balance, $750,000 was covered by federal depository insurance and $1,341,344 in interest-bearing deposits was covered by collateral held under the Pooling Method.

At June 30, 2016, the District had $350 cash on hand.

B. Investments

As of June 30, 2016, the District had the following investments and maturities.

Investment Type	Valuation Measurement Method	Fair Value	Less Than 6 Months	6 to 12 Months	1 to 2 Years	3 to 5 Years
US Government Agencies	Fair Value-Level 1	$12,005,703	$4,503,070	N/A	$5,001,592	$ 2,501,041
Commercial Paper	Fair Value-Level 2	8,492,649	8,492,649	N/A	N/A	N/A
NC Capital Management Trust-CASH	Amortized Cost	19,187,746	19,187,746	N/A	N/A	N/A
NC Capital Management Trust-TERM*	Fair Value-Level 1	8,644,114	8,644,114	N/A	N/A	N/A
Total		$48,330,212	$40,827,579	N/A	$ 5,001,592	$ 2,501,041

* Because the NC Capital Management Trust Term Portfolio had duration of .14 years, it was presented as an investment with a maturity of less than 6 months.

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2: Debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

- **Interest Rate Risk**—As a means of limiting its exposure to changes in fair value arising from rising interest rates, the District's formally adopted investment policy calls for structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and/or scheduled debt service, thereby avoiding the need to sell securities on the open market prior to maturity. In addition, the District invests operating funds primarily in shorter-term securities.

- **Credit Risk**—Credit risk is the risk of loss due to the failure of the security issuer or backer. The District's formally adopted investment policy mitigates credit risk by limiting investments to the safest types of securities and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. As of June 30, 2016, the District's investments in commercial paper were at least P-1 by Standard & Poor's, F-1 by Fitch Ratings, and A-1 by Moody's Investors Service. The District's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2016. The District's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the US government and agencies, and in high-grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The District's investments in US Agencies (such as the Federal Nation Mortgage Association, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, and the Federal Farm Credit Bank) are rated at least AA+ by Standard & Poor's, AAA by Fitch Ratings, and AAA by Moody's Investors Service as of June 30, 2016. The District's investments in the above Government Agencies' Discount Notes are rated at least A-1+ by Standard and Poor's, F-1+ by Fitch Ratings, and P-1 by Moody's as of June 30, 2016.

- **Custodial Credit Risk**—For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's formally adopted investment policy requires all transactions to be conducted on a delivery-versus-payment (DVP) basis and to be held by a contracted third-party custodian and evidenced by safekeeping receipts. At June 30, 2016, the District did not have any investments exposed to custodial credit risk.

- **Concentration of Credit Risk**—The District's investment policy mitigates concentration of credit risk, that is, the risk from the failure of any one entity or industry, by limiting the maximum amount of the District's portfolio that may be invested in Bankers' Acceptances and Commercial Paper to 20% each. In addition, the District's formally adopted policy limits investment in any single issue of a non-governmental entity to the greater of $500,000 or 1% of the entire portfolio.

C. Hedging Derivative Instrument

At June 30, 2016, the District had the following hedging derivative instrument:

				Changes in Fair Value				Fair Value - June 30, 2016	
Type	**Objective**	**Valuation Measurement Method**	**Notional Amount**	**Classification**	**Amount**	**Effective Date**	**Maturity Date**	**Classification**	**Amount**
Cash Flow Hedge:									
Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the 2005/2008A Series Revenue Refunding Bonds	Fair Value Level 2	$30,550,000	Deferred Outflow of Resources	$(1,198,094)	1/6/2005	7/1/2031	Debt	$(5,745,720)

The fair value of the interest rate swap is determined using Level 2 inputs of the fair value hierarchy. Inputs used in determining the fair value of the interest rate swap include both observable and unobservable inputs. Observable inputs include the notional amount as shown above and the variable and fixed rates within the swap agreement as disclosed in Note 3c. Unobservable inputs include quoted market prices for similar instruments, discounted cash flow methodologies, or similar techniques.

The mark-to-market valuation was established by market quotations from the counterparty representing estimates of the amounts that would be paid for replacement transactions. Because the coupons on the District's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase.

- **Objective**—As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in January 2005, the District issued variable interest rate debt and entered into an interest rate exchange agreement (swap) in connection with its variable rate Series 2005 Revenue Refunding Bonds in the amount of $33,915,000. The intention of the swap was to effectively change the District's variable interest rate on the bonds to a synthetic fixed rate of 3.4175%. In April 2008, the District issued $33,635,000 in Series 2008A Revenue Refunding Bonds to currently refund the Series 2005 Revenue Refunding Bonds. The swap described above now applies to the Series 2008A Revenue Refunding Bonds.

- **Terms**—Under the terms of the swap, the District pays the counterparty a fixed payment of 3.4175% and receives a variable payment computed as 59% of the one-month London Interbank Offered Rate (LIBOR) plus 35 basis points. The swap had an initial notional amount equal to the associated Series 2005 variable rate bond principal amount of $33,915,000. The swap was entered into at the same time the Series 2005 bonds were issued in January of 2005. Starting in fiscal year 2006, the notional value of the swap and the principal amount of the associated debt declined in equal amounts. As the swap now applies to the Series 2008A bonds, the remaining notional value of the swap is correlated to the variable rate bond principal amount of $33,635,000. Starting in fiscal year 2010, the notional value of the swap and the principal amount associated debt decline in similar amounts until the debt is completely retired. The notional amount outstanding is $30,550,000 as of June 30, 2016. The bonds' variable rate coupons are determined by the remarketing agent based on prevailing market conditions. This usually approximates The Securities Industry and Financial Markets Association (SIFMA). The bonds and the related swap agreement both mature on July 1, 2031.

- **Credit risk**—As of June 30, 2016, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty was rated A1 by Moody's and A by Standard & Poor's, and A+ Fitch Ratings as of June 30, 2016. To mitigate the potential credit risk, if the counterparty's credit quality falls below Baa3 (Moody's) and BBB-(S&P), the value of the swap may be fully collateralized by the counterparty or by several other means specified in the International Swap Dealers Association (ISDA) Master Agreement and Counterparty Schedule.

- **Interest Rate/Basis Risk**—As noted above, the swap exposes the District to basis risk should the relationship between LIBOR and SIFMA diverge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.4175% and the actual synthetic rate for the period ending June 30, 2016 of 3.1802%. As of June 30, 2016, the rate on the District's bonds was .39% whereas 59% of one-month LIBOR plus 35 basis points was .6273%. If a change occurs that results in the rates' moving in a direction unfavorable to the District, the expected cost savings may not be realized.

- **Termination Risk**—The interest rate exchange contract uses the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The ISDA Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the District if the counterparty's credit quality rating falls below Baa3 (Moody's) and BBB-(S&P). The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap was terminated, the variable-rate bonds would no longer carry a synthetic interest rate. In addition, if at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

- **Market Access Risk/Rollover Risk**—The District's interest rate exchange contract is for the term (maturity) of the bonds and, therefore, there is no market-access risk or rollover risk.

Note 3—Long-Term Obligations

A. Long-Term Debt

The District issues debt to help finance the cost of rehabilitation of wastewater interceptor and collection infrastructure, and treatment plant facilities. Unlike cities and counties, the District has no legal debt limit. However, the District must comply with the legal requirements contained in its Bond Order as described in Note 10.

The District's borrowings are subject to federal arbitrage regulations; however, management does not anticipate any material liability for arbitrage from any of these debt issues.

The District currently has the following issues outstanding:

	Original Issue Amount
Revenue Bonds:	
Series 2008A, Revenue Refunding Bonds	$ 33,635,000
Series 2009A, Revenue Bonds	17,205,000
Series 2009B, Revenue Refunding Bonds	13,360,000
Series 2013, Revenue Refunding Bonds	30,230,000
Series 2014, Revenue Bonds	26,195,000
State Revolving Fund:	
2009 North Carolina Water Pollution Control Revolving Fund	$ 672,980

The following is a summary of changes in the Districts' long-term debt for the fiscal year ended June 30, 2016:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016
Revenue Bonds:				
Enka-Candler Water and Sewer District Bonds liability assumed by the Metropolitan Sewerage District of Buncombe County, North Carolina on July 2, 1990 as stated in the sewer consolidation agreement:				
5.00% serial bonds assumed July 2, 1990 with maturities on each June 1, through 2024 varying from $19,000 to $64,000, interest payable annually	$ 532,000	$ -	$ 64,000	$ 468,000
Total Bonds - Enka-Candler Series	**$ 532,000**	**$ -**	**$ 64,000**	**$ 468,000**
Revenue Refunding Bonds, Series 2008A issued to refund the Series 2005 Revenue Refunding Bonds:				
Interest at variable rates in the weekly mode, payable monthly, due serially until 2031	$ 31,420,000	$ -	$ 790,000	$ 30,630,000
Total Bonds - Series 2008A	**$ 31,420,000**	**$ -**	**$ 790,000**	**$ 30,630,000**
Revenue Bonds, Series 2009A issued to construct certain sewerage projects:				
2.0% to 5.00% serial bonds issued October 7, 2009, with maturities on each July 1, 2010 through 2024 varying from $400,000 to $700,000; interest payable semi-annually	$ 5,770,000	$ -	$ 475,000	$ 5,295,000
5.00% term bonds issued October 7, 2009, at 109.001%, due July 1, 2029; interest payable semi-annually	$ 4,065,000	$ -	$ -	$ 4,065,000
5.00% term bonds issued October 7, 2009, at 107.240%, due July 1, 2034; interest payable semi-annually	$ 5,220,000	$ -	$ -	$ 5,220,000
Total Bonds - Series 2009A	**$ 15,055,000**	**$ -**	**$ 475,000**	**$ 14,580,000**

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016
Revenue Refunding Bonds, Series 2009B issued to refund portions of Series 1999 Bonds:				
2.0% to 5.00% serial bonds issued October 7, 2009, with maturities on each July 1, 2010 through 2019 varying from $595,000 to $3,100,000; interest payable semi-annually	$ 1,845,000	$ -	$ -	$ 1,845,000
Total Bonds - Series 2009B	**$ 1,845,000**	**$ -**	**$ -**	**$ 1,845,000**
Revenue Refunding Bonds, Series 2013 issued to refund Series 2003 and Series 2008B Revenue Refunding Bond:				
2.0% to 5.00% serial bonds issued May 1, 2013, with maturities on each July 1, 2014 through 2029 varying from $1,065,000 to $4,255,000; interest payable semi-annually	$ 26,150,000	$ -	$ 4,255,000	$ 21,895,000
Total Bond – Series 2013	**$ 26,150,000**	**$ -**	**$ 4,255,000**	**$ 21,895,000**
Revenue Bonds, Series 2014 issued to construct certain sewerage projects:				
2.0% to 5.00% serial bonds issued May 21, 2014, with maturities on each July 1, 2016 through 2039 varying from $535,000 to $1,430,000; interest payable semi-annually	$ 21,510,000	$ -	$ 535,000	$ 20,975,000
5.00% term bonds issued May 21, 2014, at 112.950%, due July 1, 2039; interest payable semi-annually	$ 4,685,000	$ -	$ -	$ 4,685,000
Total Bond – Series 2014	**$ 26,195,000**	**$ -**	**$ 535,000**	**$ 25,660,000**
Total Revenue Bonds	**$ 101,197,000**	**$ -**	**$ 6,119,000**	**$ 95,078,000**
State Revolving Fund:				
2009 North Carolina Water Pollution Control Revolving Fund used to construct certain sewerage projects:				
$672,980 revolving loan issued August 18, 2009 unpaid principal sum is reduced by one-half as "Principal Forgiveness", interest accrues at 0%, 20 annual installments May 1, 2011 to 2030	$ 252,365	$ -	$ 16,825	$ 235,540
Total State Revolving Fund	**$ 252,365**	**$ -**	**$ 16,825**	**$ 235,540**
Total Long-Term Obligations	**$ 101,449,365**	**$ -**	**$ 6,135,825**	**$ 95,313,540**
Plus net unamortized discounts and premiums	**5,294,511**	**-**	**799,031**	**4,495,480**
	106,743,876			**99,809,020**
Series 2008A	790,000			825,000
Series 2009A	475,000			495,000
Series 2013	4,255,000			3,210,000
Series 2014	535,000			665,000
2009 State Revolving Fund	16,825			16,825
Enka-Candler	64,000			64,000
Less current portion	6,135,825			5,275,825
	$ 100,608,051			**$ 94,533,195**

Maturities of long-term debt are as follows:

Year Ending June 30:	Serial Maturity	Principal Mandatory Sinking Fund Requirements (Term Bonds)	Total	Interest
2017	$ 5,275,825	$ -	$ 5,275,825	$ 3,730,993
2018	4,325,825	-	4,325,825	3,546,688
2019	4,485,825	-	4,485,825	3,375,788
2020	4,645,825	-	4,645,825	3,198,440
2021	5,265,825	-	5,265,825	2,996,464
	23,999,125	-	23,999,125	16,848,373
Five Years:				
2026	25,072,122	1,505,000	26,577,122	11,721,937
2031	22,172,293	4,495,000	26,667,293	6,417,401
2036	8,670,000	3,285,000	11,955,000	2,552,240
2041	1,430,000	4,685,000	6,115,000	621,975
	$ 81,343,543	$ 13,970,000	$ 95,313,540	$ 38,161,926

The revenue bonds are secured by and payable solely from all sewer revenues of the District after provisions for operating expenses and from certain reserves and other monies of the District, as described in the Bond Order. Additional remittance requirements to the trustee for a sinking fund to redeem the term bonds, subordinated indebtedness outstanding, if any, and other purposes are set forth in the Bond Order.

Interest expense of $552,526 has been capitalized in the cost of construction for the year ended June 30, 2016. Net interest expense not capitalized in 2016 was $2,586,670.

B. Variable Debt

- **Interest Rates**—Interest rates for variable debt change weekly as determined by the responsible remarketing agent based on competitive municipal bond rates in the secondary market.

- **Liquidity Agreement**—The District has entered into a remarketing agreement with Wells Fargo to perform various functions in connection with the Series 2008A variable debt. The Remarketing Agent's major responsibilities include ❶soliciting of purchases of Bonds from qualified investors, ❷processing and recordkeeping for such purchases, ❸billing and receiving payment for Bonds purchased, and ❹determining the interest rate on the Bonds as provided in the Series Resolution.

C. Hedging Derivative and Associated Hedged Debt

As of June 30, 2016, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows.

As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate	Total
	Principal	Interest	Swap, Net	
2017	$ 825,000	$ 116,508	$ 833,537	$ 1,775,045
2018	855,000	113,183	809,751	1,777,934
2019	885,000	109,741	785,127	1,779,868
2020	920,000	106,165	759,539	1,785,704
2021	2,075,000	98,447	704,328	2,877,775
2022	2,160,000	90,051	644,257	2,894,308
2023	2,235,000	81,359	582,071	2,898,430
2024	2,320,000	72,339	517,536	2,909,875
2025	2,400,000	63,005	450,757	2,913,762
2026	2,485,000	53,341	381,618	2,919,959
2027	2,585,000	43,292	309,724	2,938,016
2028	2,685,000	32,853	235,040	2,952,893
2029	2,785,000	22,024	157,565	2,964,589
2030	2,890,000	10,787	77,172	2,977,959
2031	1,240,000	5,415	38,737	1,284,152
2032	1,285,000	418	2,988	1,288,406
	$30,630,000	$ 1,018,928	$ 7,289,747	$ 38,938,675

The computations above are based on the following interest assumptions.

	Terms	Rates at June 30,2016
Interest Rate Swap:		
Fixed Payment to Counterparty	Fixed	3.4175%
Variable Payment from Counterparty	59% of LIBOR plus 35 Basis Points	(.6273%)
Net Interest Rate Swap Payments		2.7902%
Variable-rate Bond Coupon Payments	Remarketed Rate	.3900%
Synthetic Interest Rate on Bonds		3.1802%

D. Compensated Absences

Changes to the liability for compensated absences were as follows:

Balance - June 30, 2015	$	807,244
Additions		614,900
Withdrawals		(590,277)
Balance - June 30, 2016	$	831,867

The District accounts for compensated absences on a LIFO basis, assuming that employees are taking leave time as it is earned. For the year ended June 30, 2016, the District estimates that $32,000 is the current portion of this liability.

E. Net Pension Liability (LGERS)

Changes to the net pension liability (LGERS) were as follows:

Balance - June 30, 2015	$	-
Additions		563,911
Withdrawals		-
Balance - June 30, 2016	$	563,911

Note 4—Capital Assets

A summary of changes in capital assets follows below.

	Balance June 30, 2015	Additions	Disposals	Transfers	Balance June 30, 2016
Capital Assets Not Being Depreciated					
Land	$ 2,515,666	$ -	$ -	$ -	$ 2,515,666
Easements	8,278,294	-	-	550,625	8,828,919
Buildings not currently in service	1,159,908	-	-	-	1,159,908
Construction In Progress	8,550,739	19,777,069	-	(23,976,906)	4,350,902
Total Capital Assets Not Being Depreciated	20,504,607	19,777,069	-	(23,426,781)	16,855,395
Capital Assets Being Depreciated					
Buildings & Waste Treatment Plants	47,735,624	-	(10,984)	18,906	47,743,546
Improvements & Other than Bldgs.	5,744,542	-	-	179,605	5,924,147
Machinery & Equipment	63,723,547	118,287	(5,952,992)	11,147,935	69,036,777
Interceptor Sewer Lines	112,335,991	-	-	-	112,335,991
Collector Lines	294,344,620	2,369,739	(168,549)	12,079,835	308,625,645
Automobiles & Trucks	4,590,477	409,169	(86,358)	-	4,913,288
Computer Equipment	1,160,002	38,455	(20,880)	-	1,177,577
Office Furniture & Equipment	598,337	-	-	-	598,337
Total Capital Assets Being Depreciated	530,233,140	2,935,650	(6,239,763)	23,426,281	550,355,308
Less Accumulated Depreciation					
Bldgs. & Waste Treatment Plants	(21,522,953)	(956,968)	6,135	-	(22,473,786)
Improvements & Other than Bldgs.	(3,601,914)	(363,050)	-	-	(3,964,964)
Machinery & Equipment	(39,926,634)	(2,615,006)	5,846,646	-	(36,694,994)
Interceptor Sewer Lines	(21,879,887)	(1,243,540)	-	-	(23,123,427)
Collector Lines	(64,233,473)	(3,686,742)	168,549	-	(67,751,666)
Automobiles & Trucks	(3,532,161)	(321,647)	68,332	-	(3,785,476)
Computer Equipment	(859,412)	(136,178)	20,880	-	(974,710)
Office Furniture & Equipment	(526,350)	(9,826)	-	-	(536,176)
Total Accumulated Depreciation	(156,082,784)	(9,332,957)	6,110,542	-	(159,305,199)
Total Capital Assets Being Depreciated, Net	374,150,356	(6,397,307)	(129,221)	23,426,281	391,050,109
	$ 394,654,963	$13,379,762	$ (129,221)	$ -	$ 407,905,504

- **Buildings not being depreciated**—In January of 1999, the District modified its sewage treatment process, which resulted in retiring the digester equipment. However, the building in which it had been housed is still suitable for use, and accordingly, depreciation will not be charged until it is placed back in service.

- **Contributed infrastructure**—The District's responsibility is to maintain existing collector and interceptor sewer lines as well as to provide wastewater treatment. The majority of sewer lines added to the District are constructed by member agencies or developers and donated to the District. Occasionally, owners of private lines will petition the District to take over their sewer lines as well. This infrastructure must meet minimum District engineering standards, and when accepted by Board action, the District assumes all responsibility for future maintenance and rehabilitation. During the year ended June 30, 2016, the District accepted capital assets with an acquisition value of $2,369,739.

- **Easements**—The District acquires right-of-way easements in the course of sewer line rehabilitation projects. These easements have an indefinite useful life and are recorded at cost. During the year ended June 30, 2016, the District acquired one easement at no cost with an acquisition value of $23,042.

Note 5—Pension Plan Obligation

A. North Carolina Local Governmental Employees' Retirement System

- **Plan Description**—The District is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

- **Benefits Provided**—LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

- **Contributions**—Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. District employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The District's contractually required contribution rate for the year ended June 30, 2016 was 6.67% for general employees actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the District were $553,176 for the year ended June 30, 2016.

- **Refunds of Contributions**—District employees, who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

- **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**—At June 30, 2016, the District reported a liability of $563,911 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The District's proportion of the net pension asset was based on a projection of the District's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the District's proportion was 0.126%, which was an increase of 0.001% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of $327,395. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 132,552
Changes in assumptions	-	-
Net difference between projected and actual investment earnings	-	160,545
Changes in proportion and difference between employer contributions and proportionate share of contributions	76,109	-
District's contribution subsequent to the measurement date	553,176	-
Total	$ 629,285	$ 293,097

$553,176 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ending June 30, 2017. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2016	$ (165,060)
2017	(165,060)
2018	(165,060)
2019	278,192
2020	-
Thereafter	-

- **Actuarial Assumptions**—The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009. Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long- Term Expected Real Rate of Return
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	100%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

- **Discount Rate**—The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

- **Sensitivity of the District's Proportionate Share of the Net Pension Asset to Changes in the Discount Rate**—The following presents the District's proportionate share of the net pension asset calculated using the discount rate of 7.25%, as well as what the District's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
District's proportionate share of the net pension liability (asset)	$ 3,932,223	$ 563,911	$ (2,273,819)

- **Pension Plan Fiduciary Net Position**—Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

B. Supplemental Retirement Income Plan for Non-Law Enforcement Officers 401(k) Plan

- **Plan Description**—The District contributes to the Supplemental Retirement Income Plan of North Carolina, often referred to as the State's 401(k) Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to employees of the District who are members of LGERS. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

- **Funding Policy**—Employee contributions are voluntary and must conform to applicable IRS limits. The District has a graduated matching contribution plan as follows: if an employee contributes 1%, 2% or 3%, the District will contribute 2%, 4%, or 5%, respectively, of their salary to either the 401(k) plan or the 457 plan described below. The District Board has the authority to establish and amend contribution requirements. During the year ended June 30, 2016, a total of $321,189 and $382,402 were contributed by the District and employees, respectively.

C. Deferred Compensation Plan

- **Plan Description**—The District also offers its employees a deferred compensation plan, another type of defined contribution plan, established under the Internal Revenue Code Section 457. The plan allows employees to defer receipt and taxation of a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is administered by a third-party administrator who establishes and amends benefit provisions within the provisions of the Internal Revenue Code Section 457.

  All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, and rights (until paid or made available to the employee or other beneficiary) are held in trust for the exclusive benefit of participants and their beneficiaries. As such, these assets and the related obligations are not reported in these financial statements.

- **Funding Policy**—Employee contributions are voluntary and must conform to applicable IRS limits. The District has a graduated matching contribution plan as follows: if an employee contributes 1%, 2% or 3%, the District will contribute 2%, 4%, or 5%, respectively, of their salary to either the 401(k) plan described above or the 457 plan. The District Board has the authority to establish and amend contribution requirements. During the year ended June 30, 2016, $27,005 and $33,132 were contributed by the District and employees, respectively, to the deferred compensation plan.

Note 6—Other Employment Benefits

A. Death Benefits

- **Plan Description**—The District has elected to provide death benefits to employees through the Death Benefit Plan for Members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to his/her death, but the benefit may not be below $25,000 or exceed $50,000. All death benefit payments are made from the Death Benefit Plan. The District has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Because the benefit payments are made by the Death Benefit Plan and not by the District, the District does not determine the number of eligible participants. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. The County considers these contributions to be immaterial.

Note 7—Other Post-Employment Benefits

A. Healthcare Benefits

- **Plan Description**—Under terms of a District resolution, the District administers a single-employer defined benefit group health and dental insurance plan (the GHD Plan). As of May 14, 2008, the plan allow retirees to continue coverage under the Districts' self-insured group health and dental insurance plan until the earlier of ❶reaching age 65; or ❷becoming covered under another group medical plan; or ❸failing to timely pay any required premium for such coverage.

The District will pay the premium cost for the eligible retired employee as follows:

Years of Service	Subsidy Vesting %
30 years at any age	100%
25 years at 55 years of age	90%
20 years at 55 years of age	80%
15 years at 55 years of age	65%
10 years at 55 years of age	55% - Existing Employees 50% - Employees hired after 7/1/08
5 years at 55 years of age	50% - Existing Employees

In addition, the District's retirees can purchase coverage for their spouse at full actuarial cost. The District's Board may amend the benefit provisions. A separate report was not issued for the plan.

Membership in the District's GHD Plan consisted of the following at July 1, 2015, the date of the latest actuarial valuation:

	Employees
Retirees Receiving Benefits	14
Active Plan Members	147
Total	161

- **Funding Policy**—The District pays the full cost of coverage for the healthcare benefits provided to qualified retirees under the plan. The District has chosen to fund the healthcare benefits on a pay-as-you-go basis. Funding for these costs is included in budgeted appropriations in the annual budget. For the current year, the District contributed $189,100 or 2.3% of annual covered payroll. The current annual required contribution (ARC) rate is 3.2% of annual covered payroll. The District had eight participating retirees who contributed $16,937.

- **Summary of Significant Accounting Policies**—Post-employment expenditures are made from the post-employment account, which is maintained on the accrual basis of accounting. Expenditures are paid as they come due.

  The District's Board has agreed to set aside funds on an annual basis equivalent to the annual ARC requirement as determined by the District's actuarial consultants. As of June 30, 2016, the District set aside $1,451,685. These funds are to be used to meet the District's future post-employment obligation.

- **Annual OPEB Cost and Net OPEB Obligation**—The District's annual OPEB cost (expense) is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation for the healthcare benefits:

Annual Required Contribution	$ 261,500
Interest on Net OPEB Obligation	48,500
Adjustment to Annual Required Contribution	(47,300)
Annual OPEB Cost (Expense)	262,700
Contributions Made	(189,900)
Increase (Decrease) in Net OPEB Obligation	72,800
Net OPEB Obligation, Beginning of Year	1,213,500
NET OPEB Obligation, End of Year	$ 1,286,300

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2009 through 2016 were as follows:

For the Years Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$ 212,000	0.0%	$ 212,000
2010	221,400	3.5%	425,700
2011	200,600	9.3%	607,700
2012	212,100	7.6%	803,700
2013	244,200	28.0%	979,600
2014	255,800	38.7%	1,136,400
2015	255,200	69.8%	1,213,500
2016	262,700	72.3%	1,286,300

- **Funded Status and Funding Progress**—As of July 1, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was $2,737,100. The covered payroll (annual payroll of active employees covered by the plan) was $7,745,000 and the ratio of the UAAL to the covered payroll was 35.3%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

- **Actuarial Methods and Assumptions**—Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

  In the July 1, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 8.0% to 5.0% annually. The investment rate included a 3.0% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2015 was 30 years.

Note 8—Risk Management

The District has established a self-insured group health and dental insurance program, which provides medical coverage up to a maximum of $70,000 per employee, and approximately $2,500,000 in the aggregate. The District purchases commercial insurance for claims in excess of coverage.

All employees participate in the program and are responsible for premium and co-payment amounts as determined by the District. Charges to the Enterprise Fund are adjusted annually so that the program revenues and expenses are approximately equal and there is an adequate amount in reserves in the event the District decides to discontinue the plan. The accrued self-insurance claims liability of $413,605 reported at June 30, 2016 represents estimated claims liabilities, including incurred but not reported losses, at the estimated ultimate cost of settling the claims using historical experience as determined by the Third-Party Administrator (TPA).

Changes since inception in the claims liability amount are as follows:

Fiscal Years Ended June 30	Beginning of Fiscal Year Liability	Current Year Claims & Changes in Estimates	Claim Payments	Balances at Fiscal Year End
1995	$ 72,152	$ 530,786	$ 540,818	$ 62,120
1996	62,120	775,891	702,688	135,323
1997	135,323	381,338	433,163	83,498
1998	83,498	304,519	352,603	35,414
1999	35,414	484,512	451,556	68,370
2000	68,370	635,222	659,136	44,456
2001	44,456	610,882	577,655	77,683
2002	77,683	543,810	495,395	126,098
2003	126,098	783,630	818,228	91,500
2004	91,500	772,527	742,557	121,470
2005	121,470	1,030,787	1,036,715	115,542
2006	115,542	1,134,973	1,084,686	165,829
2007	165,829	1,092,881	1,147,691	111,019
2008	111,019	1,129,645	1,126,860	113,804
2009	113,804	1,217,628	1,278,376	53,056
2010	53,056	1,378,101	1,320,028	111,129
2011	111,129	1,622,029	1,596,723	136,435
2012	136,435	1,739,643	1,793,599	82,479
2013	82,479	1,582,293	1,520,749	144,023
2014	144,023	1,676,380	1,718,637	101,766
2015	101,766	2,231,754	1,919,915	413,605
2016	413,605	2,544,005	2,698,818	258,792

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the District obtains general liability and auto liability coverage, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of $500,000 and $300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The District carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The District carries flood insurance through the National Flood Insurance Plan (NFIP). Because the District's structures, situated adjacent to the French Broad River, are in an "A" area designated by the Federal Emergency Management Agency (FEMA), the District has purchased coverage in the maximum amount of $500,000 through the NFIP for each eligible structure. Management believes this will be adequate to remediate flood damage to exposed buildings and their contents.

In accordance with G.S. 159-29, the District has adopted a system of blanket faithful performance bonds for all employees and has purchased coverage of $100,000 from a commercial insurance carrier. The Finance Officer is individually bonded for $250,000.

Note 9—Construction in Progress and Future Expansion Plans

During the year ended June 30, 2002, consulting engineers finalized a comprehensive twenty-year Wastewater System Master Plan to guide the District in reducing sanitary sewer overflows (SSOs) as well as keeping up with the maintenance and management of its infrastructure. The plan estimated that the District would need to spend approximately $257 million over a twenty-year period. Portions of this Master Plan are periodically updated as required to meet the needs identified by engineering staff for the Water Reclamation Facility and the collector and interceptor sewer lines. The District uses these plans, along with other resources including representatives from the member agencies, to develop a ten-year Capital Improvement Plan projected to spend an average of $21.1 million annually. The District expects to fund these costs out of user charges along with the issuance of additional bonds.

As of June 30, 2016, the District had begun sewer projects expected to incur future costs of approximately $50.9 million, and the District is committed under various contracts encumbered for sewer construction and rehabilitation estimated to cost $1 million to complete. The majority of encumbered contracts are expected to be completed within the next fiscal year, and the projects currently under construction are scheduled to be completed within the next two to five years.

Note 10—Bond Covenants

The District is subject to the 1999 Amended Bond Order, which contains several operational directives including internal accounting fund structure, disclosure of financial records, and setting rates. The District was in compliance with all requirements of the Bond Order during the year ended June 30, 2016. A copy of the Bond Order may be obtained by contacting the Director of Finance.

The District is required by the 1999 Amended Bond Order to set rates as summarized by the following:

The District covenants to set rates and charges so that the Income Available for Debt Service (defined as the excess of "Revenues" over "Current Expenses") will not be less than the greater of (i) one hundred twenty percent (120%) of the Long-Term Debt Service Requirement for Parity Indebtedness only for such Fiscal Year and (ii) one hundred percent (100%) of the Long-Term Debt Service Requirement for Parity Indebtedness and Subordinated Indebtedness for such Fiscal Year.

The definition of revenues for this purpose does not include grants, contributions, investment income credited to non-operating funds, or tap and connection fees. However, tap and connection fees may be considered revenues upon a resolution duly passed by the Board. Current expenditures include operating expenses other than additions to reserve funds, depreciation or amortization, or debt service payments. Long-Term Debt Service Requirement means the aggregate of the required deposits to be made in respect of principal and interest.

The various Bond Series Resolutions require either monthly or semi-annual deposits of the upcoming principal and interest payments to be received by the Trustee at least one day prior to the payment date. In other words, during the fiscal year ended June 30, 2016, the Long-Term Debt Service Requirement equaled principal and interest due on January 1, 2016 and July 1, 2016.

The District does not currently have any subordinated indebtedness, so the computation of the current fiscal year's compliance with this covenant is based solely on 120% of the debt service requirement as follows:

Operating Revenues	$ 40,769,084
Interest and Non-Operating Revenues	130,607
Adjustments to Revenues:	
Interest Income allocable to Non-Operating Funds	(88,821)
Facility, Tap, and Other Fees	(6,388,299)
Loss on Disposal of Property	106,997
Adjusted Revenues	34,529,568
Operating Expenses	(24,537,074)
Adjustments to Expenses:	
Pension plan contribution net	(553,176)
Trustee and liquidity expense capitalized	(135,445)
Add back Depreciation	9,332,957
Adjusted Operating Expenses	(15,892,738)
Income Available for Debt Service	$ 18,636,830
Long-Term Debt Service Requirement	9,003,519
Minimum Required Percentage	120%
Minimum Required Income	$ 10,804,223

Therefore, the District is in compliance with the rate covenant as income available for debt service is in excess of 120% of the annual required debt service. The actual coverage ratio is 207%.

Note 11—Deferred Outflows and Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Unamortized bond refunding charges	$ 2,181,481	$ -
Accumulated decrease in fair value of hedging derivative	5,745,720	-
Pensions – difference between expected and actual experience	-	132,552
Pensions – net difference between projected and actual investment earnings	-	160,545
Pensions – changes in proportion and difference between employer contributions and proportionate share of contributions	76,109	-
Contributions to pension plan in 2015-2016 fiscal year	553,176	-
Total	$ 8,556,486	$ 293,097

Note 12—Hydroelectric Power

The District operates a hydroelectric generation facility on the French Broad River in proximity to the wastewater treatment plant. In some years with above average rainfall, sufficient quantities of electricity are produced to supply all of the plant's needs with excess electricity generated being sold to Duke Energy Progress. During the year ended June 30, 2016, the District generated power used by the plant, which was estimated to have a net cost after deducting expenditures to generate such power of approximately $521,000 if purchased. This is considerably lower than in prior years due to rainfall that was significantly below average levels.

Note 13—Operating Leases

A. Rental Income

The District has entered into a cancelable agreement expiring in 2019 with two options – three-year renewal, with Pace Analytical Services Inc. (Pace) which leases a portion of a building in the Wastewater Treatment Plant facilities along with laboratory equipment. In lieu of direct cash payments to the District for rent, Pace performs certain water sampling and analytical services required under the terms and conditions of the District's NPDES Permit and its Industrial Waste Pretreatment Program. In the event that the fair market value of services rendered is less than the rent payment, Pace will remit funds for the deficit to the District. Conversely, if the fair market value of the laboratory services rendered exceeds the rental amount, the District will pay Pace for the difference. This agreement had an annual value of $67,800, and this amount is accordingly reflected as rental income and operating expense in these financial statements.

The District has also entered in to a cancelable lease expiring in 2016 with two options – three-year renewals, with Buncombe County Partnership for Children to lease the old Administration Building at an annual rent of $52,182. In 2016, Buncombe County Partnership for Children informed the District of exercising their first option beginning September 1, 2016 at an annual rent of $53,632.

The final cancelable, renewable agreement entered into by the District is with a private company to lease land upon which the private company has placed a cell tower. The lease may be renewed indefinitely for five-year terms with 15% increases upon each renewal, and will provide $21,901 annually until the next scheduled increase in 2021.

Following are the carrying values of leased assets, along with current year depreciation and total accumulated depreciation at June 30, 2016. The value of the land leased for a cell tower is not included as it is immaterial and not otherwise useful to the District in current operations.

Leased Asset	Cost	Book Value	Accumulated Depreciation
Portion of Plant Building (estimate)	$ 426,000	$ 288,524	$ 137,476
Laboratory Equipment	14,251	-	14,251
Old Administration Building	467,008	155,612	311,396
Office Equipment & Fixtures	16,742	-	16,742

- **Lease Expense**—The District leases certain office equipment under operating leases. Lease expenditures for these and other rental agreements during the year ended June 30, 2016 totaled $31,070.

Future minimum lease payments are as follows:

Year Ending June 30	Amount
2017	$ 32,241
2018	32,241
2019	31,942
2020	28,653
Total	$ 125,077

Note 14—Claims and Judgments

The District may be a party to lawsuits arising from the ordinary conduct of business. In the opinion of management, settlement of actual or possible litigation, if any, will not have a material effect on the financial position of the District.

Note 15—Subsequent Events

On May 13, 2013, House Bill 488, Session Law 2013-50, also known as House Bill 488, ("H 488") became law in North Carolina, having been adopted by both houses of the North Carolina General Assembly, duly ratified, and not vetoed by the Governor of the State of North Carolina. On August 23, 2013, the General Assembly enacted Session Law 2013-388 which Amended House Bill 488. The two session laws are referred to collectively herein as "H 488" or the "Water System Act".

Section 1 of H 488 provides, in part, for the transfer by operation of law to the District of all assets and outstanding debts of ❶the Cane Creek Water and Sewer District in Henderson County, North Carolina and ❷the water system (the "Asheville Water System") operated by the City of Asheville, North Carolina ("Asheville"). Section 1 of H 488 provides that, after transfer to the District of the assets and liabilities of the Cane Creek and Sewer District and the Asheville Water System, all of the assets and outstanding debt of the District are by operation of law transferred to, and will be operated as, a new Metropolitan Water and Sewerage District, which also is established by operation of law pursuant to Section 1 of H 488. The effective date of H 488 was May 15, 2013.

On May 14, 2013, Asheville brought an action in the Superior Court Division of the General Court of Justice, Wake County, North Carolina (the "Court") challenging the constitutionality of Section 1 of H 488 under the Constitution of the State of North Carolina and the Constitution of the United States, seeking the entry of a temporary restraining order and requesting a hearing on a motion for a preliminary injunction. The State of North Carolina and the District were named as defendants in this action.

On May 14, 2013, after a hearing, the Court issued a temporary restraining order, until further order of the Court or the expiration of 10 days, which temporary restraining order ❶restrained and enjoined the State of North Carolina from taking any action to implement or enforce Section 1 of H 488, ❷prohibited the District from assuming any authority or control over the Asheville Water System, and ❸permitted Asheville to continue to own, manage and operate the Asheville Water System pending further order of the Court. The District did not oppose the entry of the temporary restraining order. A hearing on Asheville's motion for a preliminary injunction was scheduled by the Court for May 20, 2013.

The parties agreed, on May 21, 2013, to extend the temporary restraining order through October 4, 2013, to allow the parties sufficient time to file responsive pleadings, prepare briefs, and participate in oral argument in Wake County Superior Court on September 6, 2013. Oral argument was held in Wake County Superior Court on September 6, 2013, the Honorable Howard Manning, presiding. Judge Manning considered a Motion to Dismiss filed by the State of North Carolina and the City of Asheville's Motion for Preliminary Injunction pending the outcome of the litigation. Judge Manning made no decision following the hearing.

Following the hearing, at the request of Judge Manning, the parties entered into a Stipulated Case Management Order (the "Case Management Order"). The Case Management Order ❶continued the temporary restraining order in effect; ❷allowed the parties 120 days from September 30, 2013 to conduct any necessary discovery; ❸provided for the filing of dispositive motions within thirty days after the close of discovery (or sooner by agreement of the parties) and ❹the scheduling of a single hearing date for all dispositive motions.

Oral argument took place on May 23, 2014 in Wake County Superior Court before Judge Manning. On June 9, 2014, Judge Manning issued a *Memorandum of Decision and Order RE*: *Summary Judgment*. In the Decision, Judge Manning ruled that H 488 violated Article II, Section 24 of the North Carolina Constitution (prohibiting local acts relating to health and sanitation), Article I, Section 19 of the N.C. Constitution (prohibiting the taking of a proprietary asset with no rational basis), and Article I, Sections 19 and 35 of the N.C. Constitution (because the taking resulted in no change in use and was not a valid exercise of the legislative power to condemn). Judge Manning ruled further, if it were determined that H 488 was a valid exercise of the sovereign power of the State of North Carolina, then the City of Asheville would be entitled to just compensation for its water system.

The State of North Carolina filed Notice of Appeal from Judge Manning's *Memorandum of Decision and Order RE: Summary Judgment* to the North Carolina Court of Appeals ("Court of Appeals") on July 8, 2014. The State and the City of Asheville submitted a Record on Appeal and briefs. With the permission of the Court of Appeals, *Amicus Curae* briefs, in support of the City of Asheville's position, were filed by the City of Wilson, North Carolina and the North Carolina League of Municipalities.

The Court of Appeals heard oral argument on June 3, 2015 in Raleigh. The Court of Appeals issued a decision on October 6, 2015. In its decision, the Court of Appeals reversed the trial court and found that H488 is constitutional. The case was remanded to the trial court for further proceedings consistent with the Court of Appeals' decision.[1]

The City of Asheville appealed the Court of Appeals decision to the North Carolina Supreme Court. The City and the State filed briefs in support of their respective positions. The Supreme

Court heard oral argument in the case on May 17, 2016. A decision by the Supreme Court is expected sometime in 2016.

See City of Asheville v. State of North Carolina and the Metropolitan Sewerage District of Buncombe County, North Carolina No. COA14-1255, Filed: 6 October 2015.

Required Supplemental Information

Other Post-Employment Benefits
Required Supplement Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	% of Covered Payroll ((b-a)/c)
7/1/2008	$ -	$ 1,801,000	$ 1,801,000	0.0%	$ 6,532,000	27.6%
7/1/2010	-	1,678,300	1,678,300	0.0%	7,147,000	23.5%
7/1/2012	-	2,403,700	2,403,700	0.0%	7,407,000	32.5%
7/1/2014	-	2,737,100	2,737,100	0.0%	7,745,000	35.3%

Other Post-Employment Benefits
Required Supplement Information
Employer Contribution and Notes to the Required Schedules

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2009	$ 212,000	0.0%
2010	221,500	3.5%
2011	200,200	9.3%
2012	211,500	7.6%
2013	243,400	28.0%
2014	254,800	38.7%
2015	254,000	69.8%
2016	262,700	72.3%

Notes to the Required Schedules

This information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

Additional information as of the latest actuarial valuation follows:

Valuation Date
- 7/1/2014

Actuarial Cost Method
- Entry Age Normal

Amortization Method
- Level percentage of pay, open

Remaining Amortization Period
- 30 Years

Actuarial Assumptions
- Investment Rate of Return - 4.00%
- Inflation Assumption - 3.00%
- Healthcare Cost Trend Rate - 8.00% initial, 5.00% ultimate

Local Government Employees' Retirement System
Required Supplement Information
Schedule of the District's Proportionate Share
Of the Net Position Liability (Asset)
Last Three Fiscal Years*

	2016	2015	2014
District's proportion of the net pension liability (asset) %	0.126%	0.125%	0.126%
District's proportionate share of the net pension liability (asset) $	$563,911	$ (734,825)	$ 1,517,578
District's covered-employee payroll	$8,043,516	$ 7,906,515	$ 7,768,717
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.01%	(9.29%)	19.53%
Plan fiduciary net position as a percentage of the total pension liability	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

Local Government Employees' Retirement System
Required Supplement Information
Schedule of County Contributions
Last Three Fiscal Years*

	2016	2015	2014
Contractually required contribution	$ 553,176	$ 564,473	$ 555,232
Contributions in relation to the contractually required contribution	553,176	564,473	555,232
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ 8,383,296	$ 8,043,516	$ 7,906,515
Contributions as a percentage of covered-employee payroll	6.60%	7.02%	7.02%

Supplemental Financial Data

Comparative Statement of Net Position
June 30, 2016 and 2015

	2016	2015
Assets:		
Current assets:		
Cash and cash equivalents	$ 27,169,542	$ 20,759,899
Investments	15,500,938	24,986,163
Restricted cash and cash equivalents	6,589,803	7,539,492
Receivables (net):		
Accounts	5,659,688	6,010,614
Sales	358,278	325,908
Employee	20,002	20,897
Interest	18,549	425,144
Inventories	339,409	342,054
Prepaid expenses	122,442	98,798
Total current assets	55,778,651	60,508,969
Noncurrent assets:		
Restricted cash and cash equivalents	956,806	948,386
Net pension assets	-	734,825
Capital Assets:		
Land	2,515,666	2,515,666
Easements	8,828,919	8,278,294
Plant and equipment	551,515,216	531,393,048
Construction in progress	4,350,902	8,550,739
Less: accumulated depreciation	(159,305,199)	(156,082,784)
Total property and equipment	407,905,504	394,654,963
Total noncurrent assets	408,862,310	396,338,174
Total assets	464,640,961	456,847,143
Deferred outflows of resources:	8,556,486	7,568,857
Liabilities and Net Position:		
Current liabilities:		
Payments from current assets:		
Accounts payable and accrued expenses	2,615,588	3,330,959
Current portion of compensated absences payable	32,000	32,000
Payments from restricted cash and cash equivalents:		
Bond interest payable	1,458,960	1,557,592
Current portion of long term debt	5,275,825	6,135,825
Total current liabilities	9,382,373	11,056,376
Noncurrent liabilities:		
Compensated absences, net of current portion	799,867	775,244
Other post-employment benefit	1,286,300	1,213,500
Net pension liability	563,911	
Derivative liability	5,745,720	4,547,626
Bonds payable, net of current maturities	94,533,195	100,608,051
Total noncurrent liabilities	102,928,993	107,144,421
Total liabilities	112,311,366	118,200,797
Deferred inflows of resources:	293,097	1,790,947
Net position:		
Net investment in capital assets	310,277,965	290,329,700
Restricted for:		
Debt service	5,130,843	5,981,900
Bond covenant	956,806	948,386
Unrestricted	44,227,370	47,164,270
Total net position	$ 360,592,984	$ 344,424,256

Comparative Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Years Ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Sewer charges	$ 33,679,560	$ 32,617,886
Facility and tap fees	6,324,596	4,311,259
Miscellaneous	764,928	757,619
Total operating revenues	40,769,084	37,686,764
Operating expenses:		
Salaries and employee benefits	7,183,043	6,758,251
Contractual services	1,472,795	1,398,288
Utilities	1,058,299	1,144,711
Repairs and maintenance	998,758	938,977
Other supplies and expenses	1,500,249	1,545,531
Insurance claims and expenses	2,990,973	2,682,426
Depreciation	9,332,957	8,543,402
Total operating expenses	24,537,074	23,011,586
Operating income	16,232,010	14,675,178
Nonoperating revenues (expenses):		
Investment income	237,604	209,220
Interest expense	(2,586,670)	(2,771,525)
Gain (Loss) on disposal of surplus property	(106,997)	17,258
Total nonoperating expenses	(2,456,063)	(2,545,047)
Income before contributions	13,775,947	12,130,131
Capital contribution	2,392,781	3,078,520
Change in net position	16,168,728	15,208,651
Total net position, beginning of year	344,424,256	329,215,605
Total net position, end of year	$ 360,592,984	$ 344,424,256

Schedule of Revenues and Expenditures
Budget to Actual (Non-GAAP)
For the Year Ended June 30, 2016

	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Operating revenues:			
Sewer charges (net):			
Domestic users	$ 28,962,278	$ 29,719,715	$ 757,437
Industrial users	3,155,799	3,344,074	188,275
Billings and collections	734,708	754,316	19,608
	32,852,785	33,818,104	965,319
Facility and tap fees	1,605,000	6,324,596	4,719,596
City of Asheville(Enka Bonds)	37,000	37,146	146
Rental Income	69,950	78,925	8,975
Miscellaneous	464,000	648,857	184,857
Total operating revenues	35,028,735	40,907,628	5,878,893
Nonoperating revenues:			
Investment income	434,094	237,604	(196,490)
Total nonoperating revenues	434,094	237,604	(196,490)
Total revenues	35,462,829	41,145,232	5,682,403
Expenses:			
Operating expenses:			
Salaries and employee benefits		7,253,882	
Contractual services		1,472,795	
Utilities		1,058,299	
Repairs and maintenance		998,758	
Other supplies and expenses		1,500,249	
Insurance claims and expenses		3,145,786	
Total operating expenses	15,771,627	15,429,769	341,858
Capital Projects:			
Equipment		465,961	
Infrastructure		19,259,020	
Total capital projects	22,629,708	19,724,981	2,904,727
Debt service			
Principal		5,275,825	
Interest		3,799,727	
Total debt service	9,109,708	9,075,552	34,156
Total Expenses	47,511,043	44,230,302	3,280,741
Revenues over (under) expenses	(12,048,214)	(3,085,070)	8,963,144
Other Financing Sources:			
Use of available funds	12,048,214	-	(12,048,214)
	12,048,214	-	(12,048,214)
Revenues and other financing sources over (under) expenditures and other financing uses	$ -	$ (3,085,070)	$ (3,085,070)

Schedule of Revenues and Expenditures
Budget to Actual (Non-GAAP)
For the Year Ended June 30, 2016

(continued)

	Actual
Reconciliation from budgetary basis (modified accrual) to full accrual:	
Revenues and other financing sources over (under) expenditures and other financing uses	$ (3,085,070)
Reconciling items:	
Interest expense capitalized	552,526
Change in accrued interest expense	98,632
Unamortized discount recognized in interest expense	561,899
Debt principal payments	5,275,825
Capital project transfers	19,597,554
Change in allowance for doubtful accounts	(138,544)
Change in compensated absences	(24,623)
Change in health insurance IBNR	154,813
Change in other post-employment insurance OPEB	(72,800)
Deferred outflows of resources for contributions made to pension plan in current Fiscal year	553,176
Pension expense	(257,487)
Contributed assets	2,392,781
Depreciation	(9,332,957)
Gain (loss) on disposal of surplus property	(106,997)
Total reconciling items	19,253,798
Change in net position	$ 16,168,728

Combining Schedule of Net Position, All Funds (Non-GAAP)
Ended June 30, 2016

	Enterprise Acccount	Capital Reserve Account
Assets:		
Current assets:		
Cash and cash equivalents	$ 19,859,032	$ -
Investments	11,330,099	
Restricted cash and cash equivalents	-	-
Receivables (net):		
Accounts	5,659,688	-
Sales Tax	213,228	-
Employee	20,002	-
Interest	-	-
Inventories	339,409	-
Prepaid expenses	122,442	-
Total current assets	37,543,900	-
Noncurrent assets:		
Restricted cash and cash equivalents	-	956,806
Capital assets:		
Land	-	-
Easements	-	-
Plant and equipment	-	-
Construction in progress	-	-
Less accumulated depreciation	-	-
Total property and equipment	-	-
Total noncurrent assets	-	956,806
Total assets	37,543,900	956,806
Deferred outflow of resources:	481,019	-
Liabilities		
Current liabilities:		
Payments from current assets:		
Accounts payable and accrued expenses	1,225,842	-
Current portion of compensated absences payable	32,000	-
Payments from restricted cash and cash equivalents:		
Bond interest payable	-	-
Current portion of long-term obligation	-	-
Total current liabilities	1,257,842	-
Noncurrent liabilities:		
Compensated absences, net of current portion	799,867	-
Other post-employment benefits	1,286,300	-
Net pension liability	429,769	
Derivative liability	-	-
Deferred Revenue	-	-
Long-term obligations, net of current maturities	-	-
Total noncurrent liabilities	2,515,936	-
Total liabilities	3,773,778	-
Deferred inflows of resources	213,345	-
Net position	$ 34,037,796	$ 956,806

Combining Schedule of Net Position, All Funds (Non-GAAP)
Ended June 30, 2016 (continued)

Bond Service Account	Construction Account	General Account	Capital Account	Total
$ -	$ 949,289	$ 5,999,882	361,339	$ 27,169,542
	541,594	3,423,091	206,154	15,500,938
6,589,803	-	-	-	6,589,803
-	-	-		5,659,688
-	138,762	-	6,288	358,278
-	-	-	-	20,002
-	-	18,549	-	18,549
-	-	-	-	339,409
-	-	-	-	122,442
6,589,803	1,629,645	9,441,522	573,781	55,778,651
-	-	-	-	956,806
-	-	-	2,515,666	2,515,666
-	-	-	8,828,919	8,828,919
-	-	-	551,515,216	551,515,216
-	-	-	4,350,902	4,350,902
-	-	-	(159,305,199)	(159,305,199)
-	-	-	407,905,504	407,905,504
-	-	-	407,905,504	408,862,310
6,589,803	1,629,645	9,441,522	408,479,285	464,640,961
-	148,266	-	7,927,201	8,556,486
-	1,276,988	1,830	110,928	2,615,588
-	-	-	-	32,000
1,458,960	-	-	-	1,458,960
-	-	-	5,275,825	5,275,825
1,458,960	1,276,988	1,830	5,386,753	9,382,373
-	-	-	-	799,867
-	-	-	-	1,286,300
	134,142			563,911
-	-	-	5,745,720	5,745,720
-	-	-	-	-
-	-	-	94,533,195	94,533,195
-	134,142	-	100,278,915	102,928,993
1,458,960	1,411,130	1,830	105,665,668	112,311,366
-	79,752	-	-	293,097
$ 5,130,843	$ 287,029	$ 9,439,692	$ 310,740,818	$ 360,592,984

Combining Schedule of Revenues, Expenses, and Changes in Net Position, All Funds (Non-GAAP)
For the Year Ended June 30, 2016

	Enterprise Account	Capital Reserve Account
Operating revenues:		
Sewer charges (refunds)	$ 33,679,560	$ -
Facility and tap fees	-	-
Miscellaneous	701,225	-
Total operating revenues	34,380,785	-
Operating expenses:		
Operations	15,087,122	-
Depreciation	-	-
Total operating expenses	15,087,122	-
Operating income (loss)	19,293,663	-
Nonoperating revenues (expenses):		
Investment income	148,783	8,420
Interest expense	-	-
Less capitalized interest	-	-
Bond issuance costs	-	-
Gain (Loss) on disposal of surplus property	22,224	-
Total nonoperating revenues (expenses)	171,007	8,420
Income (loss) before other transactions	19,464,670	8,420
Capital contribution	-	-
Operating transfers	(12,869,370)	-
Purchase of and transfer capital assets	(465,961)	-
Payment of debt:		
Principal	-	-
Change in net position	6,129,339	8,420
Total net position, beginning of year	27,908,457	948,386
Total net position, end of year	$ 34,037,796	$ 956,806

Combining Schedule of Revenues, Expenses, and Changes in Net Position, All Funds (Non-GAAP)
For the Year Ended June 30, 2016

(continued)

Bond Service Account	Construction Account	General Account	Capital Account	Total
$ -	$ -	$ -	$ -	$ 33,679,560
-	-	6,324,596	-	6,324,596
-	-	63,703	-	764,928
-	-	6,388,299	-	40,769,084
-	59,593	-	57,402	15,204,117
-	-	-	9,332,957	9,332,957
-	59,593	-	9,390,359	24,537,074
-	(59,593)	6,388,299	(9,390,359)	16,232,010
542	30,049	47,402	2,408	237,604
(3,139,196)	-	-	-	(3,139,196)
552,526	-	-	-	552,526
-	-	-	-	-
-	-	-	(129,221)	(106,997)
(2,586,128)	30,049	47,402	(126,813)	(2,456,063)
(2,586,128)	(29,544)	6,435,701	(9,517,172)	13,775,947
-	-	2,392,781	-	2,392,781
8,423,422	8,196,278	(4,512,229)	761,899	-
(552,526)	(19,201,501)	(2,392,781)	22,612,769	-
(6,135,825)	-	-	6,135,825	-
(851,057)	(11,034,767)	1,923,472	19,993,321	16,168,728
5,981,900	11,321,796	7,516,220	290,747,497	344,424,256
$ 5,130,843	$ 287,029	$ 9,439,692	$ 310,740,818	$ 360,592,984

Statistical

Introduction

This part of MSD's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

- **Net Position by Component**
- **Changes in Net Position**
- **General Revenue by Source**
- **Expenses by Function**

Revenue Capacity

These schedules contain information to help the reader assess the District's most significant revenue sources.

- **Sewer Charge Revenue by Customer Type**
- **Residential Sewer Rates**
- **Principal Commercial Users**

Debt Capacity

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

- **Ratio of Outstanding Debt**
- **Revenue Bond Coverage**

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

- **Demographic & Economic Statistics**
- **Personal Income by Industry**
- **Principal Employers**

Operating Information

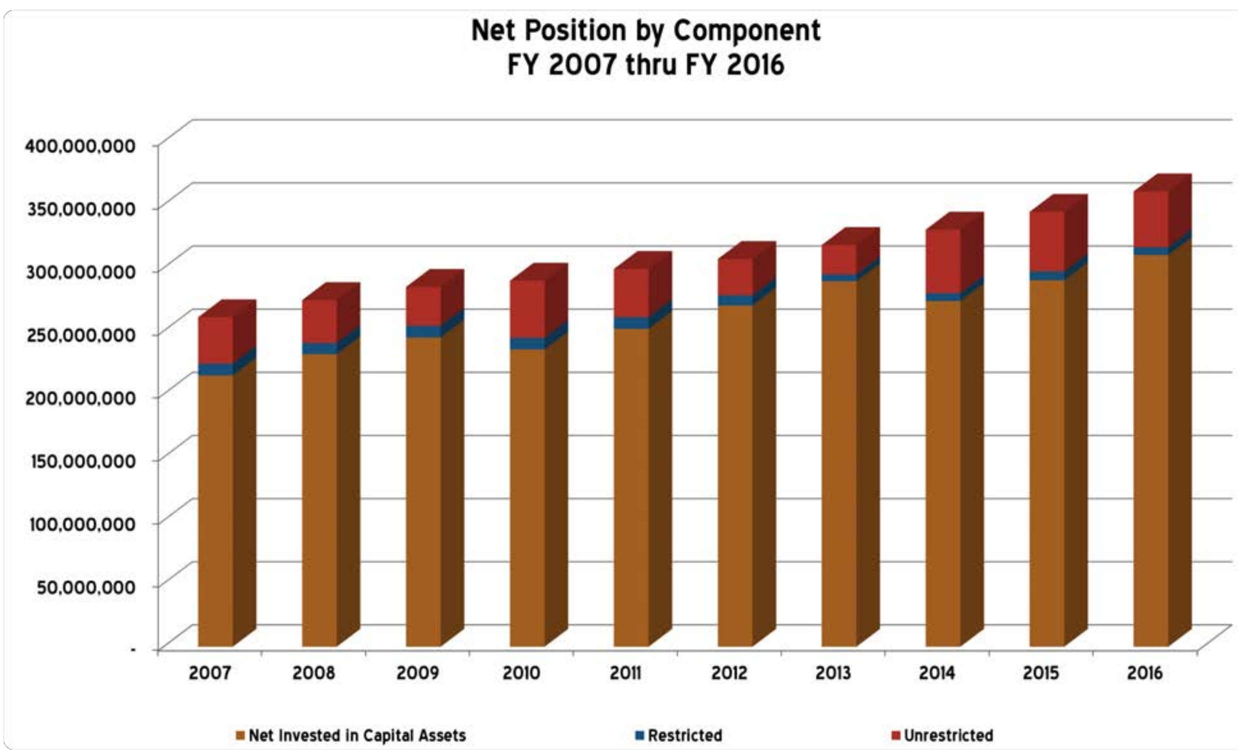
These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

- **Employees by Division**
- **Operating Indicators by Division**

Source: Unless otherwise noted, the information in theses schedules is derived from the comprehensive annual financial reports for the relevant year.

Net Position by Component FY 2007 to FY 2016

Fiscal Year Ended June 30	Net Invested in Capital Assets	Restricted	Unrestricted	Total Net Position
2007	214,808,683	9,447,494	36,699,672	260,955,849
2008	231,678,011	8,886,108	33,968,233	274,532,352
2009	244,875,790	9,493,497	30,570,139	284,939,426
2010	235,471,938	9,248,713	45,195,178	289,915,829
2011	251,754,578	9,294,955	38,170,812	299,220,345
2012	270,297,021	8,117,494	28,687,702	307,102,217
2013	289,369,009	5,472,550	23,332,868	318,174,427
2014	273,702,824	6,238,648	50,388,726	330,330,198
2015	290,329,700	6,930,286	47,164,270	344,424,256
2016	310,277,965	6,087,649	44,227,370	360,592,984



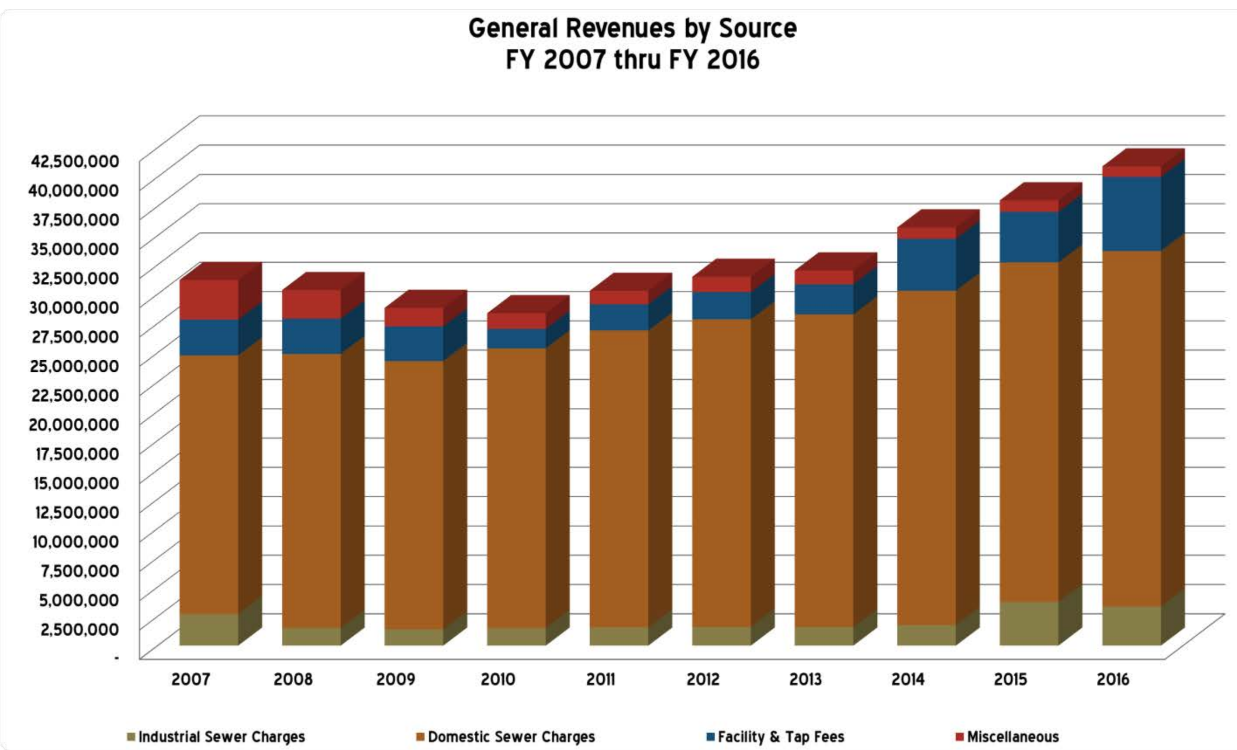
Changes in Net Position (Accrual Basis of Accounting) FY 2007 to FY 2016

	FISCAL YEAR									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating revenues:										
Sewer charges	$ 24,771,102	$ 24,895,694	$ 24,290,719	$ 25,369,818	$ 26,894,894	$ 27,849,176	$ 28,268,850	$ 30,287,440	$ 32,617,886	$ 33,679,560
Facility and tap fees	3,054,950	3,005,184	2,959,115	1,654,010	2,238,171	2,321,474	2,566,635	4,430,475	4,311,259	6,324,596
Miscellaneous	1,194,643	702,777	509,239	770,389	612,721	907,987	663,003	728,937	757,619	764,928
Total operating revenues	29,020,695	28,603,655	27,759,073	27,794,217	29,745,786	31,078,637	31,498,488	35,446,852	37,686,764	40,769,084
Operating expenses:										
Salaries & employee benefits	5,372,585	5,717,428	6,181,775	6,303,951	6,536,352	6,663,907	6,878,737	7,019,623	6,758,251	7,183,043
Contractual services	1,194,932	1,167,260	1,387,098	1,240,175	1,337,258	1,452,459	1,230,543	1,247,204	1,398,288	1,472,795
Utilities	1,384,603	1,265,901	1,298,053	1,111,644	1,234,810	1,106,158	1,013,310	1,059,709	1,144,711	1,058,299
Repairs and maintenance	945,091	877,634	877,124	851,966	927,655	958,738	971,919	982,524	938,977	998,758
Other supplies and expenses	1,320,107	1,288,061	1,337,610	1,468,655	1,344,307	1,545,557	1,616,021	1,662,793	1,545,531	1,500,249
Insurance claims and expenses	1,759,923	1,753,911	1,726,689	1,778,336	2,142,086	2,255,450	1,963,988	2,109,844	2,682,426	2,990,973
Depreciation	7,806,535	7,065,752	8,520,993	8,556,365	7,520,744	7,681,340	7,965,835	8,310,114	8,543,402	9,332,957
Total operating expenses	19,783,776	19,135,947	21,329,342	21,311,092	21,043,212	21,663,609	21,640,353	22,391,811	23,011,586	24,537,074
Operating income	9,236,919	9,467,708	6,429,731	6,483,125	8,702,574	9,415,028	9,858,135	13,055,041	14,675,178	16,232,010
Nonoperating revenues (expenses):										
Investment Income	2,190,254	1,742,108	1,047,587	578,302	493,002	311,807	507,644	175,797	209,220	237,604
Interest Expense	(3,924,737)	(3,736,405)	(3,203,405)	(2,934,980)	(2,619,031)	(2,534,946)	(2,132,131)	(2,104,758)	(2,771,525)	(2,586,670)
Amortization of bond issuance costs	(80,684)	(91,286)	(73,887)	(145,827)	(156,120)	(144,651)	-	-	-	-
Bond issuance costs	-	-	-	-	-	-	(393,694)	(434,357)	-	-
Gain (loss) on sale of surplus property	(13,698)	(49,926)	22,150	67,099	42,232	86,165	14,410	67,663	17,258	(106,997)
Total nonoperating revenues (expenses)	(1,828,865)	(2,135,509)	(2,207,555)	(2,435,406)	(2,239,917)	(2,281,625)	(2,003,771)	(2,295,655)	(2,545,047)	(2,456,063)
ncome before contributions & special items	7,408,054	7,332,199	4,222,176	4,047,719	6,462,657	7,133,403	7,854,364	10,759,386	12,130,131	13,775,947
Capital contribution	8,404,343	6,244,304	5,856,798	1,128,684	2,841,859	2,047,550	3,217,846	1,396,385	3,078,520	2,392,781
Change in Net Position	$ 15,812,397	$ 13,576,503	$ 10,078,974	$ 5,176,403	$ 9,304,516	$ 9,180,953	$ 11,072,210	$ 12,155,771	$ 15,208,651	$ 16,168,728

General Revenues by Source FY 2007 to FY 2016

Fiscal Year Ended June 30	Industrial Sewer Charges	Domestic Sewer Charges	Facility & Tap Fees	Miscellaneous	Total
2007	2,693,328	22,077,774	3,054,950	3,384,897	31,210,949
2008	1,510,669	23,385,025	3,005,184	2,444,885	30,345,763
2009	1,386,132	22,904,587	2,959,115	1,578,976	28,828,810
2010	1,498,529	23,871,289	1,654,010	1,348,691	28,372,519
2011	1,565,402	25,329,492	2,238,171	1,147,955	30,281,020
2012	1,599,819	26,249,357	2,321,474	1,305,959	31,476,609
2013	1,577,916	26,690,934	2,566,635	1,185,057	32,020,542
2014	1,758,818	28,528,622	4,430,475	972,397	35,690,312
2015	3,725,584	28,978,958	4,311,259	984,097	37,999,898
2016	3,344,074	30,335,486	6,324,596	895,535	40,899,691

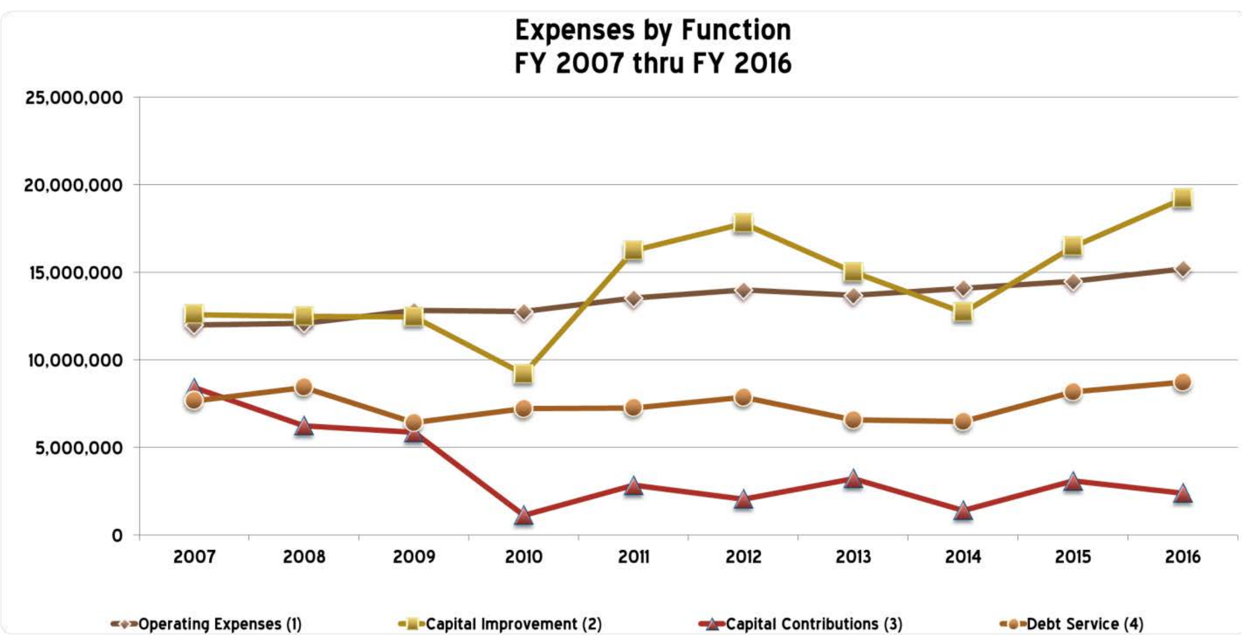
Note: Does not include Capital Contributions



Expenses by Function (Non-GAAP) FY 2007 to FY 2016

Fiscal Year Ended June 30	Operating Expenses (1)	Capital Improvement (2)	Capital Contributions (3)	Debt Service (4)	Total
2007	11,977,241	12,574,902	8,404,343	7,650,737	40,607,223
2008	12,070,195	12,471,794	6,244,304	8,419,405	39,205,698
2009	12,808,349	12,447,791	5,856,798	6,413,405	37,526,343
2010	12,754,727	9,173,231	1,128,684	7,212,980	30,269,622
2011	13,522,468	16,226,145	2,841,859	7,255,856	39,846,328
2012	13,982,269	17,775,391	2,047,550	7,859,771	41,664,981
2013	13,674,518	14,988,922	3,217,846	6,553,956	38,435,242
2014	14,081,697	12,701,810	1,396,385	6,464,583	34,644,475
2015	14,468,184	16,455,653	3,078,520	8,154,350	42,156,707
2016	15,204,117	19,201,501	2,392,781	8,722,495	45,520,894

1 Includes general operations
2 Excludes depreciation expense
3 This includes collection system infrastructure contributed by developers
4 Includes Bond Principal Expense and Bond Interest Less Capitalized Interest Portion and excludes early retirement of long-term debt



Sewer Charge Revenue by Customer Type

FY 2007 to FY 2016

	FISCAL YEAR									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Domestic Users										
Asheville	$ 17,083,346	$ 17,979,548	$ 17,930,855	$ 18,669,278	$ 19,638,890	$ 20,243,750	$ 20,856,426	$ 21,527,715	$ 22,423,891	$ 23,494,692
Biltmore Forest	266,318	288,205	282,656	275,621	286,574	310,060	316,932	318,743	366,741	366,135
Black Mountain	857,251	819,685	888,368	905,930	921,612	1,013,611	984,242	1,001,650	1,052,869	1,069,901
Henderson County	762,702	1,133,375	925,744	813,927	1,044,736	1,090,551	718,582	1,129,721	1,203,477	1,250,146
Montreat	263,354	278,131	207,087	242,821	233,859	253,546	278,739	243,406	256,944	260,871
Weaverville	598,764	661,716	602,232	611,983	608,323	648,722	660,062	671,221	749,113	814,691
Woodfin Sanitary Water & Sewer	848,640	842,717	758,294	803,368	924,567	912,414	989,107	1,024,986	1,049,061	1,084,717
Other	1,397,399	1,381,648	1,309,351	1,548,361	1,670,931	1,776,703	1,886,844	2,611,180	1,790,206	1,994,333
Industrial Users	2,693,328	1,510,669	1,386,132	1,498,529	1,565,402	1,599,819	1,577,916	1,758,818	3,725,584	3,344,074
Total	**$ 24,771,102**	**$ 24,895,694**	**$ 24,290,719**	**$ 25,369,818**	**$ 26,894,894**	**$ 27,849,176**	**$ 28,268,850**	**$ 30,287,440**	**$ 32,617,886**	**$ 33,679,560**

Note: Municipalities include sewer charges on water bills. "Other" represents sewer charges billed directly by MSD to domestic users on wells and to septage haulers.

Customer Accounts by Member Agency FY 2007 to FY 2016

	FISCAL YEAR									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Asheville	36,700	37,582	37,878	37,878	41,332	40,732	40,420	40,620	41,020	41,634
Woodfin Sanitary Water & Sewer District	2,330	2,374	2,579	2,306	2,317	2,317	2,353	2,422	2,469	2,527
Black Mountain	2,479	2,519	2,579	2,559	2,572	2,544	2,637	2,647	2,642	2,729
Weaverville	1,403	1,488	1,503	2,246	2,281	2,318	2,376	1,694	1,740	1,779
Henderson County	2,574	2,957	3,073	3,165	3,182	3,240	3,275	3,417	3,512	3,774
Biltmore Forest	637	633	636	644	639	650	650	650	653	662
Montreat	653	651	652	656	667	669	671	663	666	666
Total	**46,776**	**48,204**	**48,900**	**49,454**	**52,990**	**52,470**	**52,382**	**52,113**	**52,702**	**53,771**

Source: Member Agencies

Residential Sewer Rates FY 2007 to FY 2016

Fiscal Year Ended June 30	Monthly Base Rate	Rate Per 1,000 Gallons	Average Monthly Billing
2007	5.05	4.39	22.41
2008	5.25	4.56	23.28
2009	5.41	4.69	23.99
2010	5.61	4.87	24.84
2011	5.81	5.04	25.72
2012	5.98	5.19	26.45
2013	6.13	5.32	27.14
2014	6.28	5.45	27.81
2015	6.44	5.59	28.49
2016	6.60	5.72	29.15

Note: Rates are based on 5/8" meter, which is the standard household meter size. The District charges a higher base rate for larger meters. Each municipality will set its own water rates.

Principal Commercial Users FY 2007 & FY 2016

Commercial User	Type of Business	2007 Total Charges	2007 Rank	2007 Percentage of Total Charges	2016 Total Charges	2016 Rank	2016 Percentage of Total Charges
Milkco, Inc.	Dairy Products & Juices	479,908	3	1.94	574,628	1	1.71
Charah	Ash Management Company				430,780	2	1.28
Mission Health System	Health & Emergency Services	173,499	6	0.70	422,769	3	1.26
Jacob Holm Industries America	Textile Manufacturing				287,323	4	0.85
Ridgecrest Baptist Conference Center	Christian Conference Center	215,815	4	0.87	226,062	5	0.67
Sierra Nevada	Micro-Brewery Manufacturer				195,717	6	0.58
New Belgium Brewing					158,595	7	0.47
Givens Estates	Retirement Community				147,296	8	0.44
BONAR	Chemical Manufacturer	105,527	9	0.43	141,997	9	0.42
- (formerly Colbond)							
Duke Progress Energy					130,300	10	0.39
Anvil Kintwear	Textile Manufacturing	766,335	1	3.09			
- (formerly Asheville Dyeing & Finishing)							
BASF	Textile Manufacturing	572,305	2	2.31			
Spring Global	Textile Manufacturing	184,053	5	0.74			
- (formerly Owen Manufacturing Company, Inc.)							
Day International	Textile Machine Parts	112,630	7	0.45			
The Biltmore Company		75,986	10	0.31			
VA Medical Center	Veterans Hospital	85,530	9	0.35			
- Asheville Department of Veterans Affairs							
TOTAL		$ 2,771,588		11.19%	$ 2,715,467		8.06%

Source: District Billing Records

Ratio of Outstanding Debt FY 2007 to FY 2016

Fiscal Year	Total Outstanding Debt [1]	Debt Per Capita [2]	Per Capita Income [3]	Percentage of Personal Income
2007	98,918,097	919	34,586	2.66%
2008	94,749,395	855	34,846	2.45%
2009	91,759,237	816	33,762	2.42%
2010	104,804,725	921	33,973	2.71%
2011	99,967,436	820	35,106	2.34%
2012	94,534,320	783	37,363	2.10%
2013	86,909,009	721	37,443	1.93%
2014	110,407,625	921	38,128	2.42%
2015	104,325,293	857	Unavailable	-
2016	97,627,539	789	Unavailable	-

[1] Calculations derived from the balance of outstanding debt in Note 3 less the unamortized bond refunding charges in Note 11

[2] This ratio was calculated by using the number of domestic accounts and multiplying by Buncombe County census average of 2.3 persons per household to get the number of users in the District.

[3] Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce

See Personal Income by Industry on page 95 to assess economic base of the County.

Revenue Bond Coverage FY 2007 to FY 2016

From 1985 to 2002, the District was subject to Section 501 of the 1985 Bond Order which covenants that the District will set rates to produce sufficient revenues, together with any other available funds, including the amounts transferred by the District from the General Fund to the Revenue Fund, to permit the deposit and transfer to the credit of the Revenue Fund in the then current fiscal year of a sum at least equal to the total of the following:

1. the current expenses of the Sewerage System for the current fiscal year, and
2. to provide for the higher of either:
   a. the amounts needed for making the required cash deposits in each fiscal year to the credit of the several accounts in the Bond Service Fund and to the credit of the Subordinated Indebtedness Service Fund, the Debt Service Reserve Fund and the Maintenance Reserve Fund, or
   b. one hundred twenty per centum (120%) of the amount of the principal and interest requirements for the current fiscal year on account of the indebtedness then outstanding excluding principal and interest requirements on account of indebtedness incurred to finance improvements or additional improvements which have not been completed as of the beginning of such fiscal year.

However, with the issuance of refunding bonds on April 3, 2003, a sufficient amount of debt subject to the 1985 bond order was defeased allowing application of the 1999 Amended Bond Order whose rate covenant is summarized in the following paragraph.

The District covenants to set rates and charges so that the Income Available for Debt Service (defined as the excess of "Revenues" over "Current Expenses") will not be less than the greater of (i) one hundred twenty percent (120%) of the Long-Term Debt Service Requirement for Parity Indebtedness only for such Fiscal Year and (ii) one hundred percent (100%) of the Long-Term Debt Service Requirement for Parity Indebtedness and Subordinated Indebtedness for such Fiscal Year. The definition of revenues for this purpose does not include grants, contributions, investment income credited to non-operating funds, or tap and connection fees. Current expenditures include operating expenses other than additions to reserve funds, depreciation or amortization, or debt service payments.

The District does not currently have any subordinated indebtedness, so the computation of the current fiscal year's compliance with this covenant is based solely on 120% of the debt service requirement. Long-Term Debt Service Requirement is defined as interest and principal required to be remitted to the Trustee, except that interest shall be excluded from the determination of Long Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long Term Indebtedness. The coverage ratio is computed on the basis of 100% of required debt service.

Revenue Bond Coverage (continued) FY 2007 to FY 2016

Fiscal Year Ended June 30	Adjusted Revenues (B)	Adjusted Current Expenses (A)	Income Available for Debt Service	Long-Term Debt Service Requirement	120% of Long-Term Debt Service Requirement	Excess of Income Available for Debt over Debt Service	Coverage Ratio
2007	26,092,369	12,207,660	13,884,709	8,150,000	9,780,000	5,734,709	1.70
2008	26,104,746	12,301,084	13,803,662	8,192,946	9,831,535	5,610,716	1.68
2009	25,374,157	13,000,872	12,373,285	7,600,385	9,120,462	4,772,900	1.63
2010	26,268,075	13,233,881	13,034,194	7,855,989	9,427,187	5,178,205	1.66
2011	27,654,768	13,967,900	13,686,868	8,565,201	10,278,241	5,121,667	1.60
2012	28,510,573	14,398,228	14,112,345	7,274,680	8,729,616	6,837,665	1.94
2013	29,075,493	14,013,024	15,062,469	8,114,665	9,737,598	6,947,804	1.86
2014	31,096,483	14,302,479	16,794,004	8,408,166	10,089,799	8,385,838	2.00
2015	33,428,669	15,179,802	18,248,867	10,184,460	12,221,352	8,064,407	1.79
2016	34,529,568	15,892,738	18,636,830	9,003,519	10,804,223	9,633,311	2.07

(A) Includes all operation and maintenance expenses, except depreciation.

(B) Does not include tap and connection fees, grants, contributions, investment income allocated to non-operating funds.

Demographic & Economic Statistics FY 2007 to FY 2016

	Population Estimates [1]	Per Capita Income [2]	Median Age [1]	Civilian Labor Force [3]		
				Employed	Unemployed	Unemployment Rate
2007	229,526	34,586	40.5	117,069	4,476	3.7%
2008	232,814	34,846	40.7	117,933	5,664	4.6%
2009	235,879	33,762	40.8	111,852	10,675	8.7%
2010	238,857	33,973	40.7	114,170	10,716	8.6%
2011	243,641	35,106	40.9	115,557	10,299	8.2%
2012	245,319	37,363	41.2	118,283	9,590	7.5%
2013	248,757	37,443	41.4	121,178	8,171	6.3%
2014	251,275	38,128	41.6	121,639	5,999	4.7%
2015	254,344	Unavailable	41.8	125,750	6,213	4.7%
2016	257,413	Unavailable	41.9	128,037	5,189	3.9%

Note: The information above is for Buncombe County, North Carolina. The District believes that the above information is representative of the service area, which extends over approximately 80% of the county.

Sources:

[1] North Carolina Office of State Budget and Management

[2] Regional Economic Information System, Bureau of Economic Analysis, U.S. Department of Commerce

[3] North Carolina Department of Commerce, Division of Employment Security

Personal Income by Industry CY 2007 to CY 2016

	Calendar Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Personal Income	$ 5,867,359	$ 6,018,813	$ 5,902,385	$ 6,035,693	$ 6,079,768	$ 6,539,829	$ 6,504,850	$ 6,898,937	Unavailable	Unavailable
Farm earnings	16,620	17,946	19,468	16,279	20,348	20,145	25,513	29,244	-	-
Nonfarm earnings	5,850,739	6,000,867	5,882,917	6,019,414	6,059,420	6,519,684	6,479,337	6,869,693	-	-
Private earnings	4,909,456	4,988,213	4,840,456	4,956,388	4,997,371	5,447,887	5,421,343	5,805,847	-	-
Agricultural services, forestry, fishing	2,840	3,192	3,536	5,395	5,145	5,467	4,941	5,189	-	-
Mining	6,124	5,047	5,465	7,119	6,759	6,980	6,022	6,511	-	-
Construction	479,856	438,438	371,654	335,398	319,640	333,995	316,238	352,868	-	-
Manufacturing	711,003	709,538	685,567	678,783	669,667	705,050	706,530	759,263	-	-
Durable goods	513,212	481,628	475,480	499,883	485,225	504,114	501,844	531,457	-	-
Nondurable goods	197,791	185,518	175,178	178,900	184,442	200,936	204,686	227,806	-	-
Wholesale trade	223,091	222,808	198,144	210,424	219,752	216,270	214,011	235,156	-	-
Retail Trade	484,974	489,142	475,336	484,671	499,886	525,961	541,609	567,111	-	-
Transportation and public utilities	214,565	211,815	209,742	214,920	219,692	233,141	239,926	246,538	-	-
Services	2,787,003	2,908,233	2,891,012	3,019,678	3,056,830	3,421,023	3,392,066	3,633,211	-	-
Government and government enterprises	941,283	1,012,654	1,042,461	1,063,026	1,062,049	1,071,797	1,057,994	1,063,846	-	-
Federal, civilian	253,961	276,224	295,352	311,588	323,635	335,245	325,567	318,536	-	-
Military	24,281	26,176	27,588	26,064	26,143	26,630	25,382	24,784	-	-
State and local	663,041	710,254	719,521	725,374	712,271	709,922	707,045	720,526	-	-
	4,909,456	4,988,213	4,840,456	4,956,388	4,997,371	5,447,887	5,421,343	5,805,847	-	-

Note: The above data is for Buncombe County, North Carolina. MSD believes the data is representative of the entire service area. Growth in personal income over time may be compared to average monthly billing to evaluate the affordability of sewer rates for customers.

Source: Regional Economic Accounts, Bureau of Economic Analysis, US Department of Commerce

Principal Employers FY 2007 to FY 2016

Employer	FY 2007 Employees	FY 2007 Rank	FY 2007 % of Total County Employment	FY 2016 Employees*	FY 2016 Rank	FY 2016 % of Total County Employment
Mission Health System & Hospitals	6,000	1	5.13%	3,000+	1	2.34%+
Buncombe County Public Schools	3,720	2	3.18%	3,000+	2	2.34%+
Asheville-Buncombe Technicial Community College				1,000-2,999	3	0.78% - 2.34%
The Biltmore Company	1,580	5	1.35%	1,000-2,999	4	0.78% - 2.34%
Buncombe County Government	1,670	4	1.43%	1,000-2,999	5	0.78% - 2.34%
City of Asheville				1,000-2,999	6	0.78% - 2.34%
Ingles Markets, Inc.	3,050	3	2.61%	1,000-2,999	7	0.78% - 2.34%
Omni Grove Park Inn	1,100	7	0.94%	1,000-2,999	8	0.78% - 2.34%
VA Medical Center - Asheville	1,140	6	0.97%	1,000-2,999	9	0.78% - 2.34%
Eaton Corporation - Electrical Division	860	9	0.73%	705-999	10	0.59% - 0.78%
Community Care Partners	990	8	0.84%			
Borgwarner Turbo & Emissions Systems	840	10	0.72%			
Total for Principal Employers	**20,950**		**17.90%**	**13,750 - 21,992**		**10.74% - 17.18%**

***** Employee range is the only public information available

Note: The information above is for Buncombe County, North Carolina. The District believes that the above information is representative of the entire service area, which extends over approximately 80% of the County.

Source: Asheville Area Chamber of Commerce, Economic Development Department & NC Employment Security Commission

Staffing History (FTE's) FY 2007 to FY 2016

	FISCAL YEAR				
Department	2007	2008	2009	2010	2011
Office of the General Manager					
Office Support	1	1	1	1	1
Human Resources Department					
Human Resource	3	3	3	3	3
Environmental, Health & Safety	2	2	2	2	2
Information Technology Department					
IT & MIS	8	5	5	5	5
Geographic Information Systems	0	4	4	4	4
Financial Services Department					
Finance & Budget	2	1	1	1	1
Accounting, Investments & Cash Flow Mgmt.	3	3	3	3	3
Purchasing & Warehouse	3	3	3	3	3
Water Reclamation Facility					
Office Support	0	0	0	0	0
Plant Operations	14	13	13	13	11
Industrial Waste	4	4	4	4	5
Mechanical Maintenance	8	8	8	8	8
Electrical Maintenance/Hydro	8	8	8	8	8
Fleet Maintenance	4	4	4	4	4
Structural Maintenance	5	5	5	5	6
System Services Department					
Office Support	4	4	4	4	4
System Services	52	52	52	52	52
Engineering Services Department					
Office Support	1	1	1	1	1
Right of Way	3	3	3	3	3
Construction Administration	5	5	5	5	5
Planning and Development	7	7	7	7	7
Design and Drafting	3	3	3	3	3
Engineers	3	3	3	3	3
Management					
Division Heads	6	7	7	7	7
General Manager	1	1	1	1	1
Total	150	150	150	150	150

Note: All employees are considered full time based on 2080 hours worked per year. Above numbers represent budgeted positions and may include vacancies at year-end.

Source: District Personnel Records

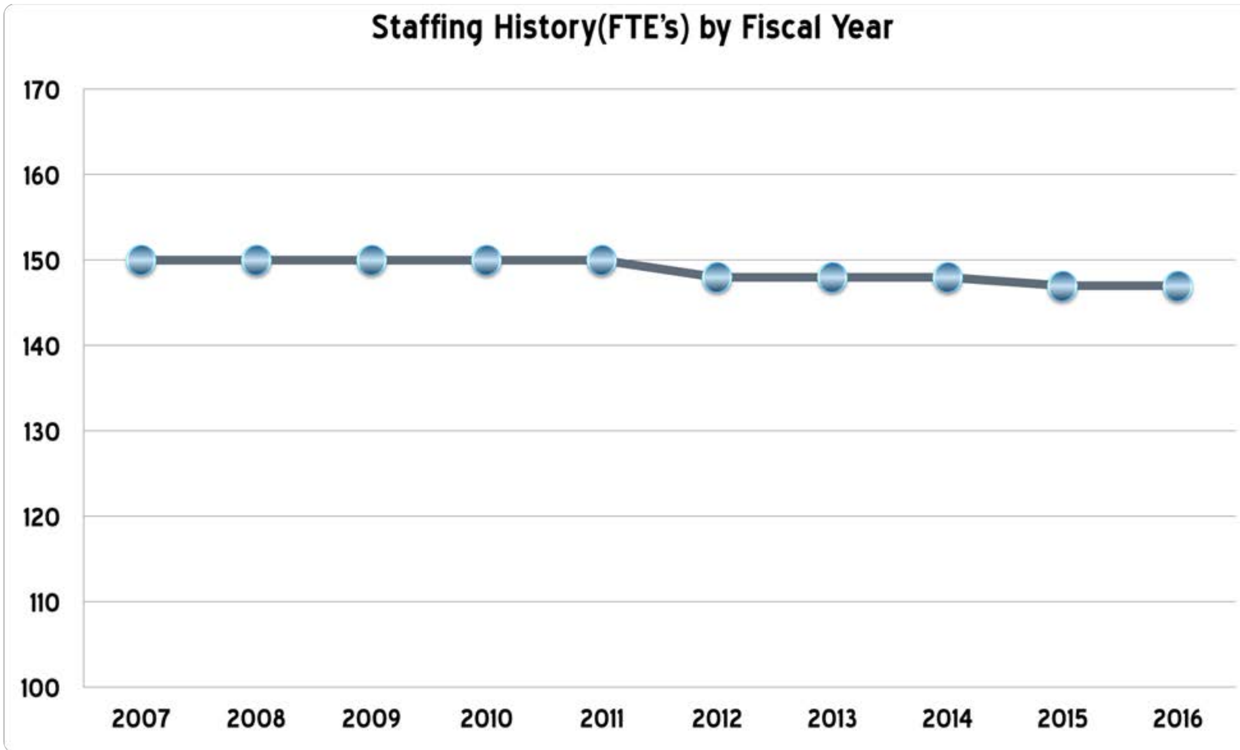
Staffing History (FTE's) (continued) FY 2007 to FY 2016

	FISCAL YEAR				
Department	2012	2013	2014	2015	2016
Office of the General Manager					
Office Support	1	1	1	1	1
Human Resources Department					
Human Resource	3	3	3	3	3
Environmental, Health & Safety	2	2	2	2	2
Information Technology Department					
IT & MIS	5	5	5	5	5
Geographic Information Systems	4	4	4	4	4
Financial Services Department					
Finance & Budget	1	1	1	1	1
Accounting, Investments & Cash Flow Mgmt.	3	3	4	4	4
Purchasing & Warehouse	3	3	3	3	3
Water Reclamation Facility					
Office Support	0	0	0	0	1
Plant Operations	11	11	10	11	11
Industrial Waste	5	5	5	7	5
Mechanical Maintenance	8	0	0	0	0
Electrical Maintenance/Hydro	8	16	15	13	11
Fleet Maintenance	4	4	4	4	4
Structural Maintenance	6	6	6	6	6
System Services Department					
Office Support	4	4	4	4	4
System Services	51	51	51	51	54
Engineering Services Department					
Office Support	1	1	1	1	1
Right of Way	3	3	3	3	3
Construction Administration	5	5	5	5	5
Planning and Development	5	5	5	4	4
Design and Drafting	3	3	4	3	3
Engineers	3	3	3	4	4
Management					
Division Heads	8	8	8	7	7
General Manager	1	1	1	1	1
Total	**148**	**148**	**148**	**147**	**147**

Note: All employees are considered full time based on 2080 hours worked per year. Above numbers represent budgeted positions and may include vacancies at year-end.

Source: District Personnel Records

Staffing History (FTE's) (continued) FY 2007 to FY 2016



Note: All employees are considered full time based on 2080 hours worked per year. Above numbers represent budgeted positions and may include vacancies at year-end.

Source: District Personnel Records

Operating Indicators by Division FY 2007 to FY 2016

DEPARTMENT	FISCAL YEAR 2007	2008	2009	2010	2011
Capital Improvement Department					
Linear Feet of rehabilitated Sewer Systems	51,272	69,249	45,175	45,450	49,099
Engineering Services Department					
Sewer Tap Applications	1,339	1,145	983	1,094	925
Plans Reviewed	123	123	101	47	37
Linear Feet of Accepted Sewer Systems	129,025	78,451	77,572	10,400	52,856
Human Resources Department					
Number of workforce injuries	11	4	11	11	7
Lost Work Rate per 100 employees	3.00	2.56	3.00	7.02	4.82
System Services Department					
Average Response Time to sewer problem (hours)	0.57	0.53	0.49	0.52	0.59
Lines Washed (lineal feet) - in-house only	662,245	893,206	920,525	1,019,852	584,461
Construction Repairs to Sewer Lines	542	513	528	447	486
Taps Installed	308	260	211	225	196
Manhole Repairs	406	411	458	461	404
Sanitary Sewer Overflows	52	41	23	34	24
Pump Stations	31	31	31	31	32
Water Reclamation Facility					
Sanitary Sewers (approximate miles)	900	930	920	960	977
Treatment Provided (millions of gallons)	6,643.00	5,767.00	6,022.50	7,774.50	6,752.50
Daily (average) flow treated (millions of gallons daily)	18.2	15.8	16.5	21.3	18.5
Maximum daily flow treated (millions of gallons daily)	47.9	33.2	40.7	57.8	56.8
Percentage of plant capacity used	45.5%	39.5%	41.3%	53.3%	46.3%
Cost per millions of gallons treated	$ 786	$ 873	$ 877	$ 675	$ 803
Energy cost per millions of gallons treated	$ 175	$ 184	$ 180	$ 116	$ 151
Total suspended solids (TSS) removal efficiency (percentage	90%	92%	91%	90%	90%
Inspection of Significant Industrial Users	20	23	24	18	23
Restaurant inspections for Grease Reduction Compliance	710	995	890	846	606

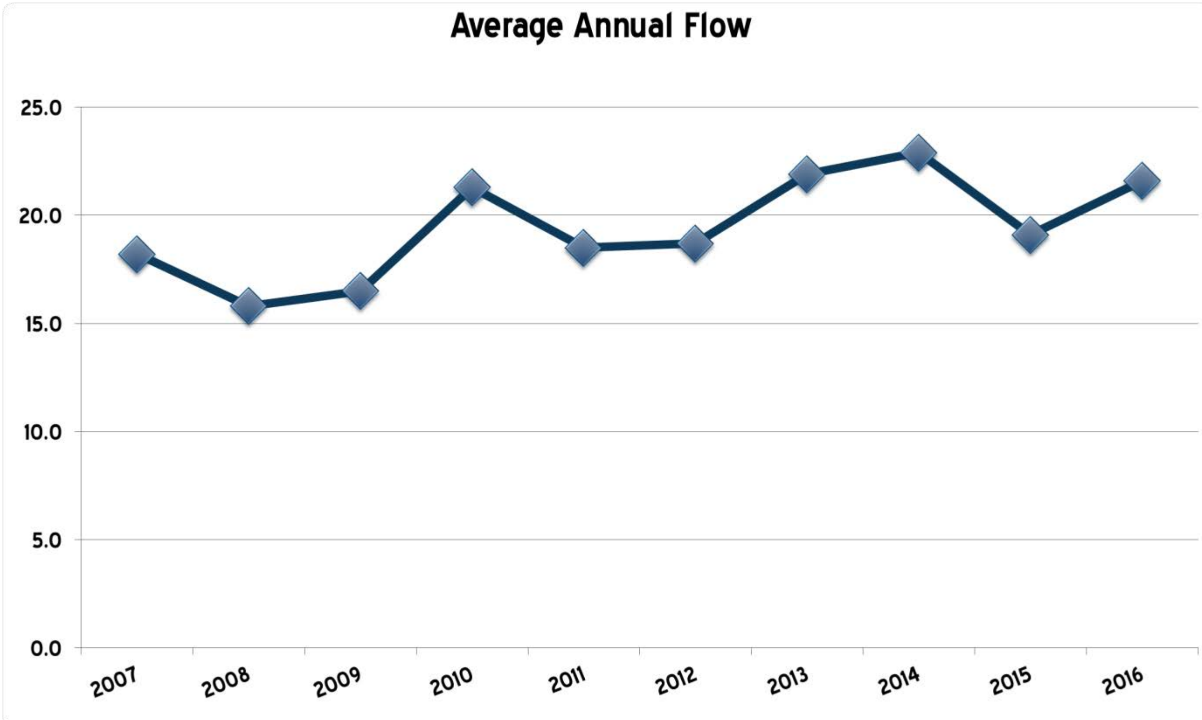
Source: District Departmental Data

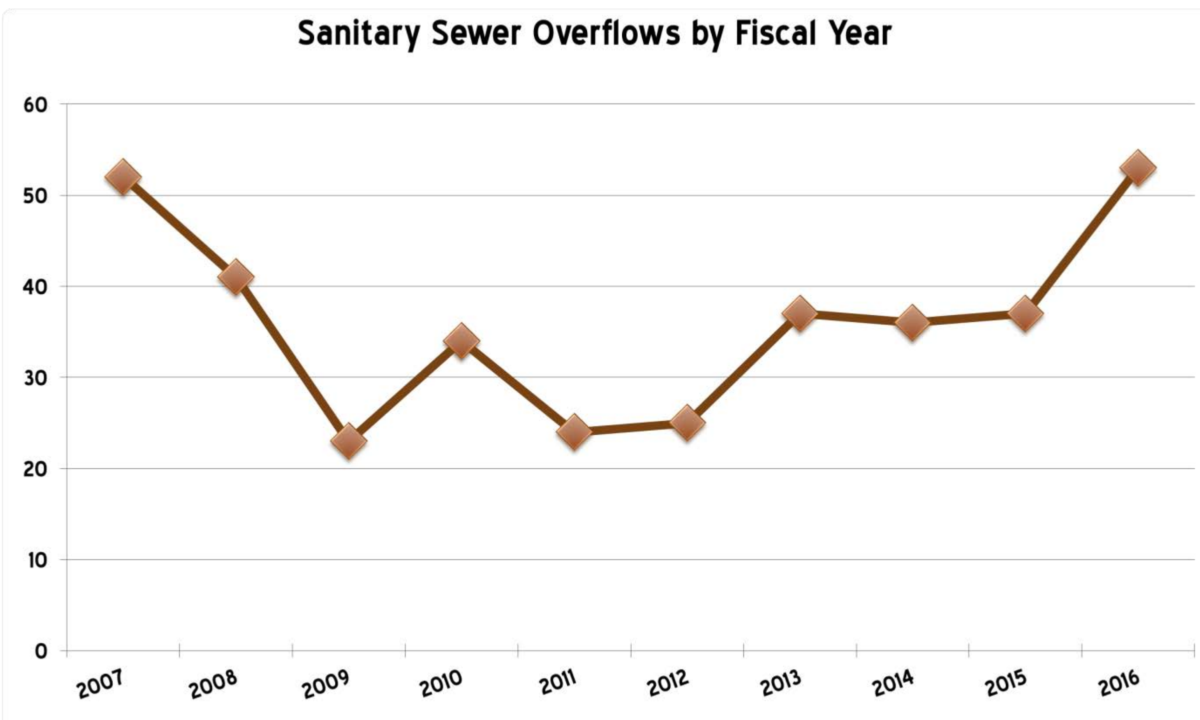
Operating Indicators by Division (continued) FY 2007 to FY 2016

DEPARTMENT	FISCAL YEAR 2012	2013	2014	2015	2016
Capital Improvement Department					
Linear Feet of rehabilitated Sewer Systems	52,641	43,519	51,110	46,729	42,675
Engineering Services Department					
Sewer Tap Applications	876	1,356	1,594	1,382	1,177
Plans Reviewed	33	92	69	62	66
Linear Feet of Accepted Sewer Systems	25,550	44,309	18,314	29,185	43,616
Human Resources Department					
Number of workforce injuries	11	5	12	5	5
Lost Work Rate per 100 employees	5.52	3.46	7.85	3.48	3.48
System Services Department					
Average Response Time to sewer problem (hours)	0.55	0.51	0.52	0.55	0.52
Lines Washed (lineal feet) - in-house only	873,077	807,746	699,543	729,451	730,000
Construction Repairs to Sewer Lines	523	507	589	543	500
Taps Installed	208	199	218	239	234
Manhole Repairs	436	342	355	376	294
Sanitary Sewer Overflows	25	37	36	37	53
Pump Stations	32	32	32	32	31
Water Reclamation Facility					
Sanitary Sewers (approximate miles)	986	1,000	1,000	1,000	1,000
Treatment Provided (millions of gallons)	6,825.50	7,993.50	8,358.50	6,971.50	7,117.50
Daily (average) flow treated (millions of gallons daily)	18.7	21.9	22.9	19.1	19.5
Maximum daily flow treated (millions of gallons daily)	50.2	62.1	74.6	39.0	67.1
Percentage of plant capacity used	46.8%	54.8%	57.3%	47.8%	48.8%
Cost per millions of gallons treated	$ 801	$ 617	$ 614	$ 735	$ 725
Energy cost per millions of gallons treated	$ 136	$ 119	$ 101	$ 115	$ 115
Total suspended solids (TSS) removal efficiency (percentage	90%	93%	96%	97%	96%
Inspection of Significant Industrial Users	18	17	18	18	21
Restaurant inspections for Grease Reduction Compliance	906	1,364	1,190	1,229	1,017

Source: District Departmental Data

Operating Indicators by Division (continued) FY 2007 to FY 2016





Source: District Operational Records

Compliance

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Metropolitan Sewerage District of Buncombe County, North Carolina
Asheville, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Metropolitan Sewerage District of Buncombe County, North Carolina (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 31, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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 that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Charlotte, North Carolina
October 31, 2016