



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018

MSD

METROPOLITAN SEWERAGE DISTRICT OF
BUNCOMBE COUNTY, NORTH CAROLINA

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018

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 District
Matt Ashley, Jr.	Town of Montreat
Jim Holland	Buncombe County
Esther Manheimer	City of Asheville
Chris Pelly	City of Asheville
Robert Pressley	Buncombe County
Al P. Root	Town of Weaverville
Robert C. Watts	Town of Black Mountain
Al Whitesides	Buncombe County
Gwen Wisler	City of Asheville

Legal Counsel	Auditing Firm	Engineer of Record
Roberts & Stevens, P.A.	Cherry Bekaert, L.L.P.	McGill Associates, P.A.

General Manager	Director of Finance
Thomas E. Hartye, P.E.	W. Scott Powell, CLGFO

Table of Contents



Letter of Transmittal	1-10
Certificate of Achievement for Excellence in Financing Reporting (GFOA)	11
Map of District Boundary	12
Principal Officials	13
Organizational Chart	14



Report of Independent Auditor	15-17
Management's Discussion and Analysis	18-28
Basic Financial Statements	
Statement of Net Position	29
Statement of Revenues, Expenses, and Changes in Net Position	30
Statement of Cash Flows	31
Notes to Basic Financial Statements	32-71
Required Supplemental Information	
Local Government Employees' Retirement System – Schedule of the District's Proportionate Share of the Net Pension Liability (Asset)	73
Local Government Employees' Retirement System – Schedule of District Contributions	74
Schedule of Changes in the Total OPEB Liability and Related Ratios	75
Supplemental Financial Data	
Comparative Statement of Net Position	76
Comparative Statement of Revenues, Expenses, and Changes in Net Position	77
Schedule of Revenues and Expenditures – Budget to Actual (Non-GAAP)	78-79
Combining Schedule of Net Position, All Funds (Non-GAAP)	80-83
Combining Schedule of Revenues, Expenses, and Changes in Net Position, All Funds – (Non-GAAP)	84-85

Table of Contents



Introduction	87-88
Net Position by Component	89
Changes in Net Position (Accrual Basis of Accounting)	90
General Revenues by Source	91
Expenses by Function (Non-GAAP)	92
Sewer Charge Revenue by Customer Type	93
Customer Accounts by Member Agency	94
Residential Sewer Rates	95
Principal Commercial Users	96
Ratio of Outstanding Debt	97
Revenue Bond Coverage	98-99
Demographic & Economic Statistics	100
Personal Income by Industry	101
Principal Employers	102
Staffing History (FTE's)	103
Operating Indicators by Division	104



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 <i>Government Auditing Standards</i>	105-106
--	---------

This page intentionally left blank.



Introductory Section



Metropolitan Sewerage District

OF BUNCOMBE COUNTY, NORTH CAROLINA

December 19, 2018

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, 2018. 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 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, 2018, 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, 2018, 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

- ① assist users in understanding the socioeconomic environment within which a government operates and
- ② provide 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 1,027 miles of sewer line with 30,000 manholes and serves over 55,000 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 1,217,000 linear feet of existing sewer line have been replaced since consolidation, representing over 23.2% 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. 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 to generate power for the wastewater treatment plant, which helps defray utility costs for the operation.

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

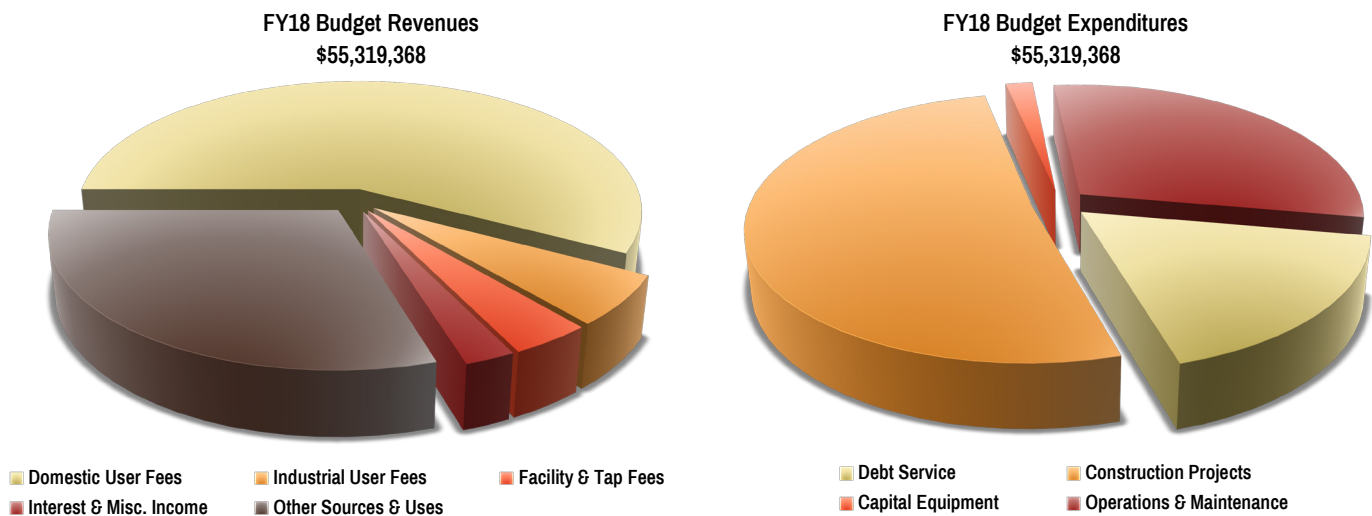
direct bills about 500 customers, predominantly local industries, and private residences served by wells, yet connected to the sewer system.

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, 2018 are 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 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 updated the 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 spring 2017.

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 1,027-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 \$397.4 million has been re-invested back into the system.

● Plant Headworks Project

The Plant Headworks Project is the first recommendation of the 2015 Facilities Plan. Construction of this \$12.0 million project is well underway and will provide new bar screens, a new fine screening system, a significantly improved grit removal system, and a storage/surge system for peak flows (using existing decommissioned digester tanks). Completion is expected in early 2019.



Location of new Plant Headworks Project

● **Plant High Rate Primary Treatment Project**

The second critical project recommended by the Facilities Plan is the High Rate Primary Treatment project. This \$17.0 million project will provide chemically enhanced primary treatment after the headworks and prior to the plant’s biological process. This new process is expected to improve the plant’s biological process and in turn, plant effluent quality. Design is complete, and construction will begin in early 2019, with completion expected in late 2020.



Location of new High Rate Primary Treatment Project

● **South French Broad Interceptor Lining Project**

The District rehabilitates approximately 50,000 linear feet (LF) of public sewer line each year. One of the largest sewer rehabilitation projects this past year was the “South French Broad Interceptor Lining” project. It is located along the French Broad River within the Biltmore Estate, and lined 6,631 LF of an existing 36-inch diameter concrete line. The liner is virtually a new “pipe-within-a-pipe” and will help keep this line in service for the foreseeable future. This was the second phase of lining the entire 21,950 LF through the Biltmore Estate. Phase III will be installed in 2019 and Phase IV will complete the project in 2020.



South French Broad Interceptor Lining Project

● **Jonestown Road Sewer Rehabilitation Project**

Another recently completed project this past year was the “Jonestown Road” sewer rehabilitation project. This project had one of the highest Pipe Ratings (meaning the most critical) among the FY17-18 series of capital projects for the collection system. The District’s Pipe Rating system objectively rates all capital sewer line projects in terms of environmental risk, and the projects are prioritized in accordance with this Pipe Rating. For this project, over 3,400 LF of sewer in poor structural condition was replaced with new 8-inch ductile pipe.



Jonestown Road Sewer Rehabilitation Project

• Significant Reduction of Sanitary Sewer Overflows

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 25 in FY2018.



Example of Stream Crossing

• National Environmental Achievement Award

In February 2017, MSD received a National Environmental Achievement Award from NACWA for its Incinerator System Emissions Upgrades Project. This award recognizes individuals and NACWA member

agencies that have outstanding contributions to environmental protection and the clean water community. This \$7.4 million project reduced emissions from the incinerator, and utilized a new mercury removal technology, which saved MSD ratepayers \$5 million over traditional technology.



• Peak Performance 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 Platinum Award signifying consistent NPDES permit compliance during the 2017 calendar year. This marks the seventeenth consecutive year the District has been honored with a "Peak Performance Award" representing continued excellence in environmental protection.



• Management Award Recognition

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 31 minutes in FY2018.

● Environmental Regulations Compliance

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



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 1,052,000 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, 2017. This was the twenty-third 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.

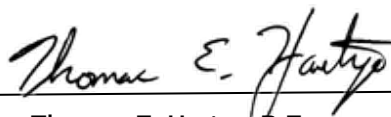
In addition, the District also received the GFOA's Distinguished Budget Presentation Award for its annual 2018 budget document. In order to qualify for the Distinguished Budget Presentation Award, the District's budget document was judged proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device. This was the nineteenth consecutive year that the District has achieved this award.

Acknowledgments

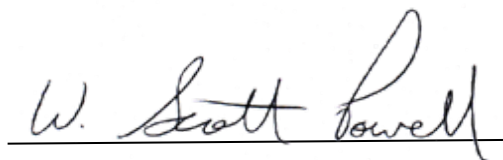
The preparation of this report could not have been accomplished without the dedicated services of staff throughout the District and the District's independent auditor, Cherry Bekaert LLP. We would like to acknowledge the hard work and dedication of Cheryl Rice, the District's Accounting Manager. In addition, 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**

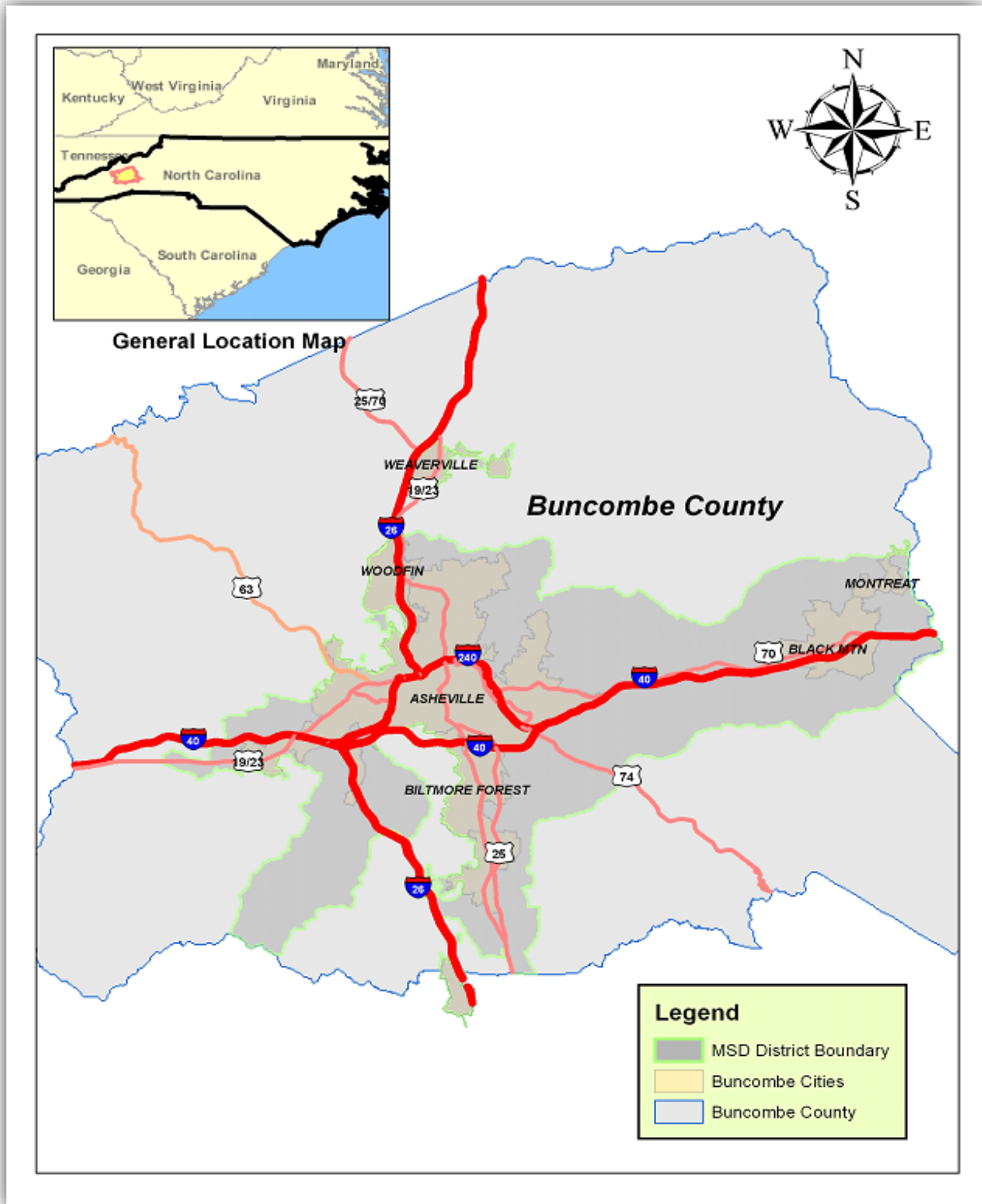
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrell

Executive Director/CEO

Map of District Boundary



Principal Officials

Board Members

Matt Ashley, Jr.

Jackie W. Bryson

Jim Holland

E. Glenn Kelly

Esther Manheimer

Chris Pelly

Robert Pressley

Al P. Root

M. Jerry VeHaun

Robert C. Watts

Al Whitesides

Gwen Wisler

Representative of

Town of Montreat

Woodfin Sanitary Water & Sewer District

Buncombe County

Town of Biltmore Forest

City of Asheville

City of Asheville

Buncombe County

Town of Weaverville

Town of Woodfin

Town of Black Mountain

Buncombe County

City of Asheville

Legal Counsel

Roberts & Stevens, P.A.

Auditing Firm

Cherry Bekaert LLP

Engineer of Record

McGill Associates, P.A.

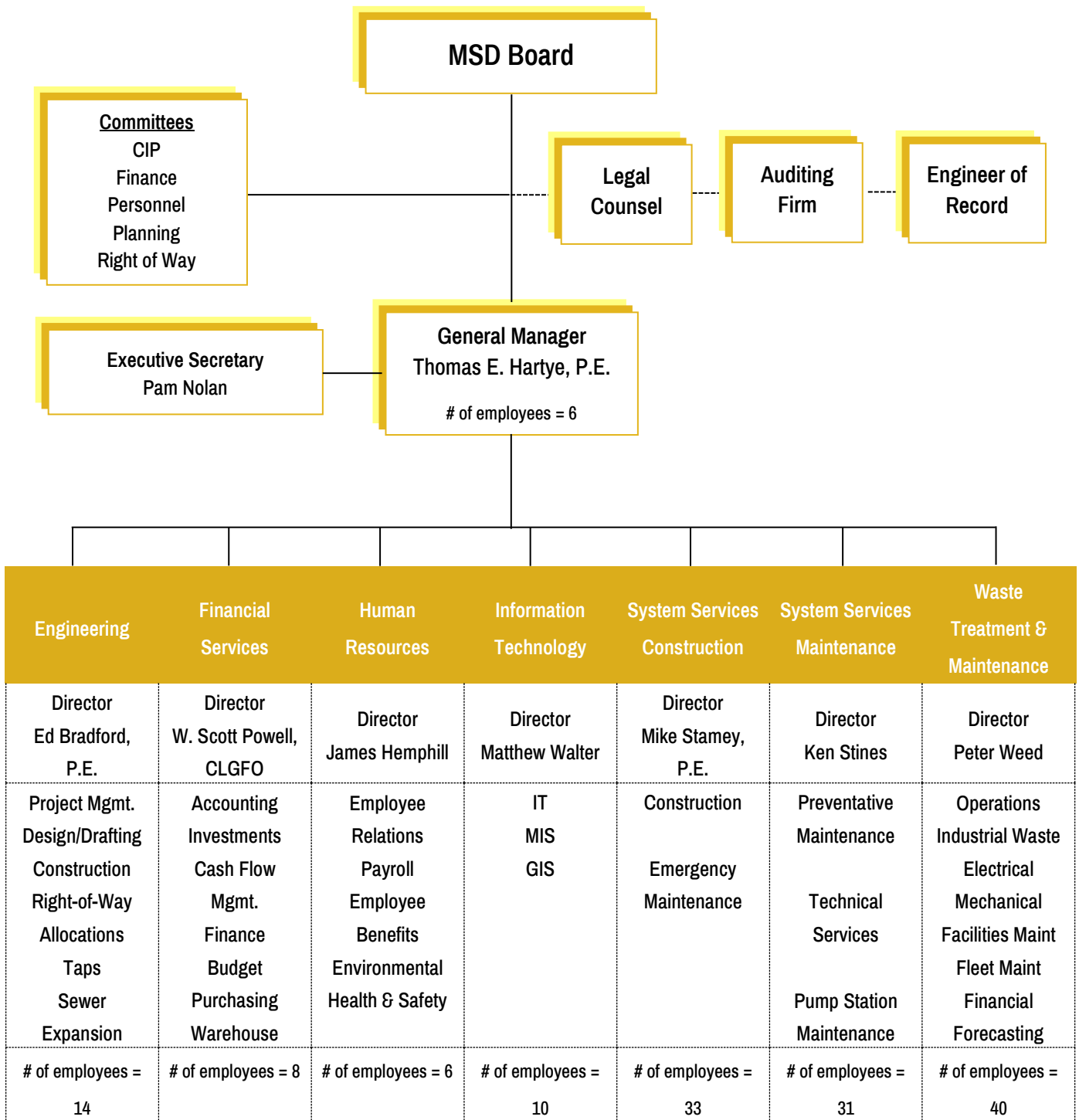
General Manager

Thomas E. Hartye, P.E.

Director of Finance

W. Scott Powell, CLGFO

Organizational Chart



Number of Employees: 148

————— Employee/Representative

----- Contractors



Financial Section

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, 2018, 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, 2018, 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

Emphasis of Matter

As discussed in Note 15 to the financial statements, the District adopted Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, net position as of July 1, 2017, has been restated. Our opinion is not modified with respect to this matter.

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 supplementary financial data, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 22, 2018

This page intentionally left blank.

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, 2018.

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 \$394.0 million and reflects a \$15.2 million or 4.0% 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 \$15.2 million increase is attributable to the District's normal operations and includes contributed capital assets from developers of \$3.2 million.
- Net investment in capital assets decreased by \$6.2 million or 1.9%. The decrease is a direct result of revenue bond issuance exceeding assets acquired and or constructed in the current fiscal year.

B. Outstanding Debt

- In July of 2017, the District issued \$11.4 million of revenue refunding bonds with a premium of \$2.1 million to retire portions of the Series 2009A bonds. The District expects to realize savings in excess of 14.8% or about \$1.8 million in present value savings.
- In July of 2017, the District issued \$26.1 million in new revenue bonds with a premium of \$2.3 million to be used for capital projects.
- After principal repayments of \$4.3 million, the District has approximately \$110.7 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: ① the financial statements and ② notes 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, the obligations to the District's employees and creditors (liabilities), and deferred inflows of resources, which 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.

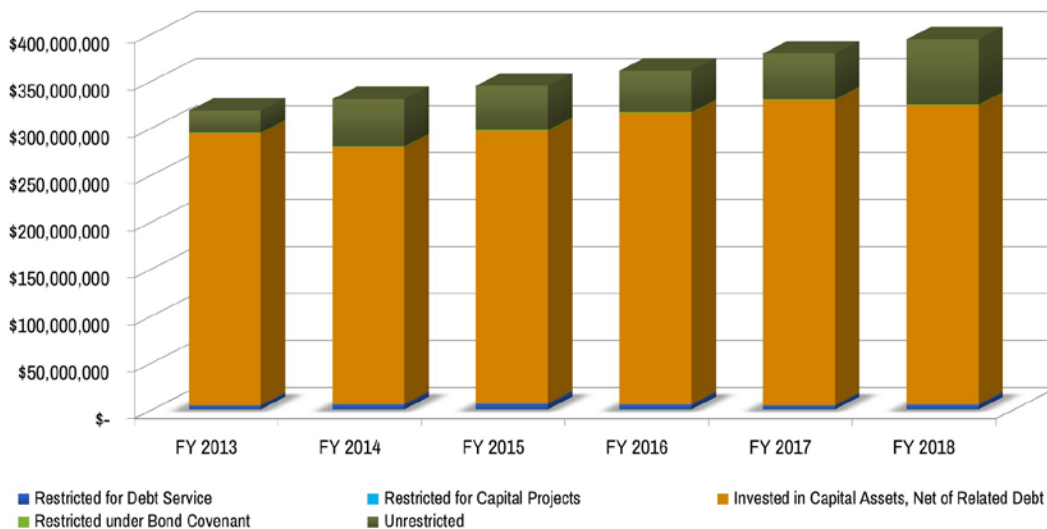
These financial statements should be evaluated with other external factors such as economic conditions, regional employment statistics, and population growth for a more complete analysis of the District's current and future financial condition.

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 \$394.0 million at June 30, 2018. The largest proportion of the District's net position, approximately 81%, 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 \$5.0 million or 1.3% 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 District also has \$77,384 of unexpended bond proceeds, which is restricted for construction of capital projects. The remaining balance of \$69.4 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.

Net Position Trends



The District's overall financial position improved during the fiscal year ended June 30, 2018 as overall net position grew by 4.0%. 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 2018	FY 2017	% Increase (Decrease) 2018 Versus 2017
Current and Other Assets	\$ 86,154,553	\$ 60,838,872	41.61%
Capital Assets, net	<u>432,745,833</u>	<u>416,722,753</u>	3.85%
Total Assets	<u>518,900,386</u>	<u>477,561,625</u>	8.65%
Deferred Outflows of Resources	6,265,311	8,218,598	(23.77%)
Long-Term Liabilities Outstanding	120,331,013	98,198,415	22.53%
Other Liabilities	<u>10,770,349</u>	<u>8,664,867</u>	24.30%
Total Liabilities	<u>131,101,362</u>	<u>106,863,282</u>	22.68%
Deferred Inflows of Resources	53,684	93,869	(42.81%)
Net Position:			
Net Investment in Capital Assets	318,591,132	324,826,191	(1.92%)
Restricted for:			
Debt Service	4,990,981	4,205,703	18.67%
Capital Projects	77,384	-	100.00%
Bond Covenant	977,151	963,964	1.37%
Unrestricted	<u>69,374,003</u>	<u>48,827,214</u>	42.01%
Total Net Position	<u>\$ 394,010,651</u>	<u>\$ 378,823,072</u>	4.01%

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 2018	FY 2017	% Increase (Decrease) 2018 versus 2017
Operating Revenues:			
Sewer Charges	\$ 36,891,000	\$ 35,521,220	3.85%
Facility and Tap Fees	5,357,008	6,977,097	(23.22%)
Miscellaneous	<u>745,022</u>	<u>681,243</u>	9.36%
Total Operating Revenues	<u>42,993,030</u>	<u>43,179,560</u>	(0.43%)
Operating Expenses:			
Salaries and Employee Benefits	7,846,038	7,656,858	2.47%
Contractual Services	1,598,381	1,653,918	(3.36%)
Utilities	1,295,636	1,234,029	4.99%
Repairs and Maintenance	985,838	1,019,150	(3.27%)
Other Supplies and Expenses	1,886,937	1,736,302	8.68%
Insurance Claims and Expenses	2,765,151	2,467,567	12.06%
Depreciation	<u>10,393,126</u>	<u>9,929,559</u>	4.67%
Total Operating Expenses	<u>26,771,007</u>	<u>25,697,383</u>	4.18%
Operating Income	<u>16,222,023</u>	<u>17,482,177</u>	(7.21%)
Non-operating Revenues (Expenses):			
Investment Income	960,222	343,988	179.14%
Interest Expense	(3,515,801)	(2,794,077)	25.83%
Bond Issuance Costs	(355,583)	-	100.00%
Gain (Loss) on Sale of Surplus Property	<u>10,187</u>	<u>(280,337)</u>	103.63%
Total Non-operating Revenues (Expenses)	<u>(2,900,975)</u>	<u>(2,730,426)</u>	6.25%
Income before other transactions	13,321,048	14,751,751	(9.70%)
Capital Contribution	<u>3,222,031</u>	<u>3,478,337</u>	(7.37%)
Change in Net Position	16,543,079	18,230,088	(9.25%)
Total Net Position, beginning of year			
As previously reported	378,823,072	360,592,984	
Cumulative affect of accounting change	<u>(1,355,500)</u>	<u>-</u>	
As restated	<u>377,467,572</u>	<u>360,592,984</u>	4.67%
Total Net Position, end of year	<u>\$ 394,010,651</u>	<u>\$ 378,823,072</u>	4.01%

The section below discusses significant factors contributing to the District's 5.1% increase in net position from \$378.8 million to \$394.0 million.

A. Operating Revenues

- Sewer revenues increased 3.85%. The District raised domestic sewer rates by 2.5% at the beginning of the fiscal year and experienced an approximate 4.2% increase in commercial consumption.
- Facility and tap fees decreased 23.2% from the previous year reflecting a lull in development in the area.

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

- Salaries and Employee Benefits—The District experienced a 2.47% increase in current year expense due to a 3.0% salary adjustment for employees as well as the District having a higher than average turnover rate.
- Utilities Expense—A decrease in internally generated hydroelectric power due to routine maintenance attributed to the 4.99% increase in current year expenses.
- Insurance Claims and Expenses—The District experienced a 12.06% decrease in current year expense due to having a fewer number of high dollar claims in current year.

C. Investment Income—Increasing short-term interest rates as well as the issuance of \$26.1 million of revenue bonds resulted in the 179.14% increase in the District's interest income.

D. Interest Expense—Interest expense increased due to early implementation of GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period.

E. 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 \$610,018,126. 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 \$90.8 million to complete, and at June 30, 2018, was committed to contracts expected to cost \$5.4 million.

Major capital asset transactions during the year include:

- ✱ Rehabilitation of over 59,783 feet of sewer line including:
 - ✓ South French Broad Interceptor Grouting
 - ✓ Elkwood Avenue
 - ✓ Sutton Avenue
 - ✓ Jonestown Road
 - ✓ Hendersonville Rd. @ Rosscraggon Rd Phase 2
 - ✓ Plant Headworks

Table 3—Capital Assets

	FY 2018	FY 2017
Land	\$ 2,515,666	\$ 2,515,666
Easements	9,713,983	9,311,594
Improvements Other than Buildings	6,708,140	6,673,938
Buildings	48,822,071	48,839,491
Machinery and Equipment	79,829,954	77,377,658
Interceptor Sewer Lines	116,131,072	114,600,331
Collector Sewer Lines	335,628,372	321,915,006
Construction in Progress	<u>10,668,868</u>	<u>3,798,042</u>
Subtotal	610,018,126	585,031,726
Less: Accumulated Depreciation	<u>(177,272,293)</u>	<u>(168,308,973)</u>
Net Property, Plant and Equipment	<u>\$ 432,745,833</u>	<u>\$ 416,722,753</u>

More detailed information on the District’s capital assets is presented in Note 5 to the financial statements.

B. Debt Administration

At June 30, 2018, the District had \$110,721,890 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 Aaa 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 2017, Asheville's unemployment rate has been among the lowest compared to the other ten metropolitan areas in North Carolina. As of June 2018, Asheville's unemployment rate was 3.3%. This holds well below the state and national averages of 4.2% and 4.2%, respectively. Over the past year, about 4,200 jobs have been added to the economy increasing current employment to 195,500.
- 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 37,500 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 21,500 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.
- **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. 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, 2019 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, 2018

Assets:

Current assets:

Cash and cash equivalents	\$ 29,425,947
Investments	40,590,705
Restricted cash and cash equivalents	7,823,358
Receivables (net):	
Accounts	6,244,956
Sales	562,227
Employee	17,483
Interest	86,872
Inventories	328,105
Prepaid expenses	97,749
Total current assets	<u>85,177,402</u>

Noncurrent assets:

Restricted cash and cash equivalents	977,151
--------------------------------------	---------

Capital assets:

Land	2,515,666
Easements	9,713,983
Plant and equipment	587,119,609
Construction in progress	10,668,868
Less: accumulated depreciation	<u>(177,272,293)</u>
Total property and equipment	<u>432,745,833</u>

Total noncurrent assets	<u>433,722,984</u>
-------------------------	--------------------

Total assets	<u>518,900,386</u>
--------------	--------------------

Deferred outflows of resources:

6,265,311

Liabilities:

Current liabilities:

Payments from current assets:

Accounts payable and accrued expenses	3,870,919
Current portion of compensated absences payable	32,000

Payments from restricted cash and cash equivalents:

Bond interest payable	1,761,605
Current portion of long term obligations	<u>5,105,825</u>
Total current liabilities	<u>10,770,349</u>

Noncurrent liabilities:

Compensated absences, net of current portion	792,938
Other post-employment benefits	2,973,000
Net pension liability	1,896,515
Derivative liability	2,572,374
Long-term obligations, net of current maturities	<u>112,096,186</u>
Total noncurrent liabilities	<u>120,331,013</u>

Total liabilities	<u>131,101,362</u>
-------------------	--------------------

Deferred inflows of resources:

53,684

Net position:

Net investment in capital assets	318,591,132
Restricted for:	
Debt service	4,990,981
Capital projects	77,384
Bond covenant	977,151
Unrestricted	<u>69,374,003</u>
Total net position	<u>\$ 394,010,651</u>

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, 2018

Operating revenues:	
Sewer charges	\$ 36,891,000
Facility and tap fees	5,357,008
Miscellaneous	745,022
Total operating revenues	<u>42,993,030</u>
Operating expenses:	
Salaries and employee benefits	7,846,038
Contractual services	1,598,381
Utilities	1,295,636
Repairs and maintenance	985,838
Other supplies and expenses	1,886,837
Insurance claims and expenses	2,765,151
Depreciation	10,393,126
Total operating expenses	<u>26,771,007</u>
Operating income	<u>16,222,023</u>
Nonoperating revenues (expenses):	
Investment income	960,222
Interest expense	(3,515,801)
Bond issuance costs	(355,583)
Gain (loss) on disposal of surplus property	10,187
Total nonoperating revenues (expenses)	<u>(2,900,975)</u>
Income before contributions	<u>13,321,048</u>
Capital contribution	<u>3,222,031</u>
Change in net position	<u>16,543,079</u>
Total net position, beginning of year	
As previously reported	378,823,072
Cumulative affect of accounting change	(1,355,500)
As restated	<u>377,467,572</u>
Total net position, end of year	<u>\$ 394,010,651</u>

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

Statement of Cash Flows

For the Year Ended June 30, 2018

Cash flows from operating activities:	
Cash received from customers	\$ 41,991,230
Sales tax paid	(212,190)
Cash paid to employees for services	(6,051,794)
Cash paid for goods and services	(9,605,452)
Other operating revenue	745,563
Net cash provided by operating activities	<u>26,867,357</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(22,806,501)
Proceeds from sale of surplus property	80,282
Proceeds from long-term obligations	
Principal	26,060,000
Premium	2,298,614
Principal paid on bond maturities	(4,325,825)
Bond Issuance Cost	(355,583)
Interest paid on bond maturities	(3,911,163)
Net cash used by capital and related financing activities	<u>(2,960,176)</u>
Cash flows from investing activities:	
Proceeds from sale of Investments	68,472,943
Purchases of investments	(97,387,381)
Income on investments	891,256
Net cash provided by investing activities	<u>(28,023,182)</u>
Net increase (decrease) in cash and cash equivalents	(4,116,001)
Cash and cash equivalents, July 1	<u>42,342,457</u>
Cash and cash equivalents, June 30	<u>\$ 38,226,456</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 16,222,023
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	10,393,126
Pension Expense	
Changes in assets and liabilities:	
(Increase) in receivables	(468,427)
(Increase) in inventory	(20,300)
Decrease in prepaid items	40,449
Increase in accounts payable and accrued expenses	481,814
Increase in other post-employment benefits	36,000
Increase in accrued compensated absences	5,369
Decrease in deferred outflows of resources - pensions	842,883
Decrease in deferred outflows of resources - other post-employment benefits	156,901
(Decrease) in net pension liability	(782,296)
(Decrease) in deferred inflows of resources - pensions	(40,185)
Total adjustments	<u>10,645,334</u>
Net cash provided by operating activities	<u>\$ 26,867,357</u>

Noncash investing, capital, and financing activities:

1. At various times during the year ended June 30, 2018, the District received contribution of sewer lines constructed by developers with a reported estimated fair value of \$3,222,031.
2. During the year ended June 30, 2018, a total of \$756 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, 2018

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	Town of Montreat
Beaverdam Water and Sewer District	Enka-Candler Water and Sewer District
Town of Biltmore Forest	Fairview Sanitary Sewer District
Town of Black Mountain	Skyland Sanitary Sewer District
Busbee Sanitary Sewer District	Swannanoa Water and Sewer District
Caney Valley Sanitary Sewer District	Town of Weaverville
Crescent Hill Sanitary Sewer District	Venable Sanitary District
Woodfin Sanitary Water and Sewer 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 19.5 million gallons per day from approximately 54,600 residential and commercial customer accounts transported through approximately 1,020 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 government 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 Government 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, 2018, the bond interest payable of \$1,761,605 and the current portion of long-term debt of \$5,105,825 represent 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 \$1,490,372 as of June 30, 2018.

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, 2016 are recorded at their estimated fair value at the date of donation. Donated capital assets received after July 1, 2016 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	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 four items that meet this criterion - unamortized bond refunding charges, accumulated decrease in fair value of hedging derivative, and contributions made to the pension plan and other post-employment benefits plan in the 2018 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, 2018 is \$824,938 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, 2018 amounts to approximately \$2.83 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. 83, Certain Asset Retirement Obligations* will be effective for the District's fiscal year beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

- *Statement No. 84, Fiduciary Activities* will be effective for the District's fiscal year beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on ① whether a government is controlling the assets of the fiduciary activity and ② the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement will enhance consistency and comparability by ① establishing specific criteria for identifying activities that should be reported as fiduciary activities and ② clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

- *Statement No. 87, Leases* will be effective for the District's fiscal year beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

- *Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* will be effective for the District's fiscal year beginning after June 15, 2018. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows.

- Statement No. 90, Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61* will be effective for the District's fiscal year beginning after December 15, 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information related to presentation of majority equity interests in legally separate organizations that previously was reported inconsistently. In addition, requiring reporting of information about component units if the government acquires a 100 percent equity interest provides information about the cost of services to be provided by the component unit in relation to the consideration provided to acquire the component unit.

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 Non-operating 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, 2018, the District's deposits had a carrying amount of \$595,160 and a bank balance of \$1,555,605. Of the bank balance, \$750,000 was covered by federal depository insurance and \$805,605 in interest-bearing deposits was covered by collateral held under the Pooling Method.

At June 30, 2018, the District had \$350 cash on hand.

B. Investments

As of June 30, 2018, 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	\$ 25,684,146	\$ 15,263,065	\$ 4,979,902	\$ 4,463,972	\$ 977,207
Commercial Paper	Fair Value–Level 2	14,906,559	13,922,748	983,811	N/A	N/A
NC Capital Management Trust–Government	Amortized Cost	8,450,755	8,450,755	N/A	N/A	N/A
NC Capital Management Trust–TERM*	Fair Value–Level 1	<u>29,180,191</u>	<u>29,180,191</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total		<u>\$ 78,221,651</u>	<u>\$ 66,816,759</u>	<u>\$ 5,963,713</u>	<u>\$ 4,463,972</u>	<u>\$ 977,207</u>

* Because the NC Capital Management Trust Term Portfolio had duration of .09 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, 2018, 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 Government Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2018.

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, 2018. 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, 2018.

- 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, 2018, 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, 2018, the District had the following hedging derivative instrument:

Type	Objective	Valuation Measurement Method	Notional Amount	Changes in Fair Value				Fair Value - June 30, 2018	
				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	\$28,880,000	Deferred Outflow of Resources	\$1,275,158	1/6/2005	7/1/2031	Debt	\$(2,572,374)

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 \$28,950,000 as of June 30, 2018. 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, 2018, 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 Aa3 by Moody's and A+ by Standard & Poor's, and AA- Fitch Ratings as of June 30, 2018. 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, 2018 of 3.3185%. As of June 30, 2018, the rate on the District's bonds was 1.49% whereas 59% of one-month LIBOR plus 35 basis points was 1.5890%. 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 11.

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:	
Enka-Candler Water & Sewer District Bonds	\$ 1,451,000
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
Series 2017, Revenue and Refunding Bonds	37,485,000
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, 2018:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
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	\$ 404,000	\$ -	\$ 64,000	\$ 340,000
Total Bonds – Enka-Candler Series	\$ 404,000	\$ -	\$ 64,000	\$ 340,000
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	\$ 29,805,000	\$ -	\$ 855,000	\$ 28,950,000
Total Bonds – Series 2008A	\$ 29,805,000	\$ -	\$ 855,000	\$ 28,950,000

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Revenue Bonds (continued):				
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	\$ 4,800,000	\$ -	\$ 3,705,000	\$ 1,095,000
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	\$ 14,085,000	\$ -	\$ 12,990,000	\$ 1,095,000
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	\$ -	\$ 595,000	\$ 1,250,000
Total Bonds - Series 2009B	\$ 1,845,000	\$ -	\$ 595,000	\$ 1,250,000
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	\$ 18,685,000	\$ -	\$ 1,595,000	\$ 17,090,000
Total Bond – Series 2013	\$ 18,685,000	\$ -	\$ 1,595,000	\$ 17,090,000

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Revenue Bonds (continued):				
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	<u>\$ 20,310,000</u>	<u>\$ -</u>	<u>\$ 685,000</u>	<u>\$ 19,625,000</u>
5.00% term bonds issued May 21, 2014, at 112.950%, due July 1, 2039; interest payable semi-annually	<u>\$ 4,685,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,685,000</u>
Total Bond – Series 2014	<u>\$ 24,995,000</u>	<u>\$ -</u>	<u>\$ 685,000</u>	<u>\$ 24,310,000</u>
Revenue Bonds, Series 2017 issued to construct certain sewerage projects and to refund portions of Series 2009A:				
3.0% to 5.00% serial bonds issued July 11, 2017, with maturities on each July 1, 2018 through 2039 varying from \$620,000 to \$2,260,000; interest payable semi-annually	<u>\$ -</u>	<u>\$ 32,965,000</u>	<u>\$ -</u>	<u>\$ 32,965,000</u>
5.00% term bonds issued July 11, 2017, at 97.704%, due July 1, 2042; interest payable semi-annually	<u>\$ -</u>	<u>\$ 4,520,000</u>	<u>\$ -</u>	<u>\$ 4,520,000</u>
Total Bond – Series 2017	<u>\$ -</u>	<u>\$ 37,485,000</u>	<u>\$ -</u>	<u>\$ 37,485,000</u>
Total Revenue Bonds	<u>\$ 89,819,000</u>	<u>\$ 37,485,000</u>	<u>\$ 16,784,000</u>	<u>\$ 110,520,000</u>

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
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	\$ 218,715	\$ -	\$ 16,825	\$ 201,890
Total State Revolving Fund	\$ 218,715	\$ -	\$ 16,825	\$ 201,890
Total Long-Term Obligations	<u>90,037,715</u>	<u>37,485,000</u>	<u>16,800,825</u>	<u>110,721,890</u>
Plus, net unamortized discounts and premiums	<u>3,817,113</u>	<u>4,377,678</u>	<u>1,714,670</u>	<u>6,480,121</u>
	93,854,828	41,862,678	18,515,495	117,202,011
Series 2008A	855,000			885,000
Series 2009A	515,000			535,000
Series 2009B	595,000			615,000
Series 2013	1,595,000			1,655,000
Series 2014	685,000			715,000
Series 2017	-			620,000
2009 State Revolving Fund	16,825			16,825
Enka-Candler	<u>64,000</u>			<u>64,000</u>
Less current portion	<u>4,325,825</u>			<u>5,105,825</u>
	<u>\$ 89,529,003</u>			<u>\$ 112,096,186</u>

Maturities of long-term debt are as follows:

Year Ending June 30:	Serial Maturity	Principal Mandatory Sinking Fund Requirements (Term Bonds)	Total	Interest
2019	\$ 5,105,825	\$ -	\$ 5,105,825	\$ 4,280,088
2020	5,265,824	-	5,265,824	4,077,940
2021	5,855,824	-	5,855,824	3,845,914
2022	6,120,824	-	6,120,824	3,588,425
2023	<u>6,360,824</u>	<u>-</u>	<u>6,360,824</u>	<u>3,341,414</u>
	28,709,121	-	28,709,121	19,133,781
Five Years:				
2028	27,179,121	3,170,000	30,349,121	13,114,752
2033	20,933,648	4,965,000	25,898,648	6,959,449
2038	12,615,000	2,635,000	15,250,000	3,235,363
2043	<u>2,795,000</u>	<u>7,720,000</u>	<u>10,515,000</u>	<u>743,869</u>
	<u>\$ 63,522,769</u>	<u>\$ 18,490,000</u>	<u>\$ 82,012,769</u>	<u>\$ 24,053,433</u>

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.

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 ① soliciting of purchases of Bonds from qualified investors, ② processing and recordkeeping for such purchases, ③ billing and receiving payment for Bonds purchased, and ④ determining the interest rate on the Bonds as provided in the Series Resolution.

C. Hedging Derivative and Associated Hedged Debt

As of June 30, 2018, 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	
2019	\$ 885,000	\$ 419,267	\$ 514,517	\$ 1,818,784
2020	920,000	405,603	497,748	1,823,351
2021	2,075,000	376,119	461,567	2,912,686
2022	2,160,000	344,041	422,201	2,926,242
2023	2,235,000	310,833	381,448	2,927,281
2024	2,320,000	276,370	339,156	2,935,526
2025	2,400,000	240,709	295,394	2,936,103
2026	2,485,000	203,789	250,085	2,938,874
2027	2,585,000	165,396	202,971	2,953,367
2028	2,685,000	125,514	154,028	2,964,542
2029	2,785,000	84,142	103,257	2,972,399
2030	2,890,000	41,211	50,573	2,981,784
2031	1,240,000	20,686	25,386	1,286,072
2032	<u>1,285,000</u>	<u>1,596</u>	<u>1,958</u>	<u>1,288,554</u>
	<u>\$ 28,950,000</u>	<u>\$ 3,015,276</u>	<u>\$ 3,700,289</u>	<u>\$ 35,665,565</u>

The computations above are based on the following interest assumptions.

	Terms	Rates at June 30, 2018
Interest Rate Swap:		
Fixed Payment to Counterparty	Fixed	3.4175%
Variable Payment from Counterparty	59% of LIBOR plus 35 Basis Points	(1.5890%)
Net Interest Rate Swap Payments		1.8285%
Variable-rate Bond Coupon Payments	Remarketed Rate	1.4900%
Synthetic Interest Rate on Bonds		3.3185%

D. Compensated Absences

Changes to the liability for compensated absences were as follows:

Balance - June 30, 2017	\$	819,569
Additions		542,322
Withdrawals		<u>(536,953)</u>
Balance - June 30, 2018	\$	<u>824,938</u>

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, 2018, 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, 2017	\$	2,678,811
Additions		-
Withdrawals		<u>(782,296)</u>
Balance - June 30, 2018	\$	<u>1,896,515</u>

Note 4—Defeasance of Bonds

2017 Refunding

On July 11, 2017 the District issued \$11,425,000 of revenue advance refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of general resources for a portion of future debt service payments of \$12,475,000 of 2009A revenue bonds to be redeemed on July 1, 2019.

As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$335,951. This amount is being netted against the new debt and amortized over the life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 15 years by \$2,327,010 and resulted in an economic gain of \$1,847,049.

The defeased bonds at June 30, 2018 had the following outstanding balances:

	June 30, 2017	New	Retired	June 30, 2018
2009A	\$ -	\$ 12,475,000	\$ -	\$ 12,475,000
	<u>\$ -</u>	<u>\$ 12,475,000</u>	<u>\$ -</u>	<u>\$ 12,475,000</u>

Outstanding amounts will be redeemed as follows:

	July 1, 2018	July 1, 2019
2009A	\$ -	\$ 12,475,000
	<u>\$ -</u>	<u>\$ 12,475,000</u>

Note 5—Capital Assets

A summary of changes in capital assets follows below.

	Balance June 30, 2017	Additions	Disposals	Transfers	Balance June 30, 2018
Capital Assets Not Being Depreciated					
Land	\$ 2,515,666	\$ -	\$ -	\$ -	\$ 2,515,666
Easements	9,311,594	-	-	402,389	9,713,983
Buildings not currently in service	1,159,908	-	-	-	1,159,908
Construction In Progress	<u>3,798,042</u>	<u>22,528,740</u>	<u>-</u>	<u>(15,627,914)</u>	<u>10,668,868</u>
Total Capital Assets	<u>16,785,210</u>	<u>22,528,740</u>	<u>-</u>	<u>(15,255,525)</u>	<u>24,058,425</u>
Capital Assets Being Depreciated					
Buildings & Waste Treatment	47,679,583	-	(17,420)	-	47,662,163
Improvements & Other than Bldgs.	6,673,938	34,202	-	-	6,708,140
Machinery & Equipment	70,281,509	87,374	(821,468)	2,736,623	72,284,038
Interceptor Sewer Lines	114,600,331	-	(22,284)	1,553,025	116,131,072
Collector Lines	321,915,006	3,222,031	(260,247)	10,751,582	335,628,372
Automobiles & Trucks	5,266,128	613,954	(308,465)	-	5,571,617
Computer Equipment	1,193,015	-	(70,017)	214,295	1,337,293
Office Furniture & Equipment	<u>637,006</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>637,006</u>
Total Capital Assets	<u>568,246,516</u>	<u>3,957,561</u>	<u>(1,499,901)</u>	<u>15,255,525</u>	<u>585,959,701</u>
Less Accumulated Depreciation					
Bldgs. & Waste Treatment Plants	(23,403,873)	(957,285)	5,400	-	(24,355,758)
Improvements & Other than Bldgs.	(4,352,706)	(347,482)	-	-	(4,700,188)
Machinery & Equipment	(39,320,559)	(3,280,537)	764,998	-	(41,836,098)
Interceptor Sewer Lines	(24,349,217)	(1,281,697)	22,284	-	(25,608,630)
Collector Lines	(71,363,839)	(4,038,093)	258,642	-	(75,143,290)
Automobiles & Trucks	(3,884,265)	(364,735)	308,465	-	(3,940,535)
Computer Equipment	(1,087,327)	(109,816)	70,017	-	(1,127,126)
Office Furniture & Equipment	<u>(547,187)</u>	<u>(13,481)</u>	<u>-</u>	<u>-</u>	<u>(560,668)</u>
Total Accumulated Depreciation	<u>(168,308,973)</u>	<u>(10,393,126)</u>	<u>1,429,806</u>	<u>-</u>	<u>(177,272,293)</u>
Total Capital Assets Being Depreciated, Net	<u>399,937,543</u>	<u>(6,435,565)</u>	<u>(70,095)</u>	<u>15,255,525</u>	<u>408,687,408</u>
	<u>\$ 416,722,753</u>	<u>\$ 16,093,175</u>	<u>\$ (70,095)</u>	<u>\$ -</u>	<u>\$ 432,745,833</u>

- ✱ **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, 2018, the District accepted capital assets with an acquisition value of \$3,222,031.
- ✱ **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.

Note 6—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, 2018 was 7.50% 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 \$654,448 for the year ended June 30, 2018.
- ✱ **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, 2018, the District reported a liability of \$1,896,515 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017, the District's proportion was 0.12414%, which was a decrease of 0.00208% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$674,850. At June 30, 2018, 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	\$ 109,257	\$ 53,684
Changes in assumptions	270,849	-
Net difference between projected and actual investment earnings	460,476	-
Changes in proportion and difference between employer	74,887	-
District's contribution subsequent to the measurement date	654,448	-
Total	\$ 1,569,917	\$ 53,684

\$654,448 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as an decrease of the net pension liability in the year ending June 30, 2019. 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:	
2019	\$ 135,675
2020	573,243
2021	288,971
2022	(136,104)
2023	-
Thereafter	-

- Actuarial Assumptions**—The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014. 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, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	<u>6.0%</u>	4.0%
Total	<u><u>100%</u></u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2016 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 3.00%. All rates of return and inflation are annualized.

- Discount Rate**—The discount rate used to measure the total pension liability was 7.20%. 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 7.20%, 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 (6.20%) or one percentage point higher (8.20%) than the current rate:

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
District's proportionate share of the net pension liability (asset)	\$ 5,693,382	\$ 1,896,515	\$ (1,272,670)

- 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, 2018, a total of \$360,738 and \$417,133 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 a 401(a) plan. The District Board has the authority to establish and amend contribution requirements. During the year ended June 30, 2018, \$20,625 and \$29,618 were contributed by the District and employees, respectively, to the deferred compensation plan.

Note 7—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 8—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). The District Board has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. However as of June 30, 2018, the District set aside \$1,673,476. These funds are to be used to meet the District's future post-employment obligation.
- Benefits Provided**—As of May 14, 2008, the plan allows retirees to continue coverage under the Districts' self-insured group health and dental insurance plan until the earlier of ① reaching age 65; or ② becoming covered under another group medical plan; or ③ failing 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, 2017, the date of the latest actuarial valuation:

	Employees
Retirees Receiving Benefits	14
Active Plan Members	<u>143</u>
Total	<u><u>157</u></u>

B. Total OPEB Liability

The District's total OPEB liability of \$2,973,000 was measured as of July 31, 2017 and was determined by an actuarial valuation as of that date.

- Actuarial assumptions and other inputs**—The total OPEB liability in the July 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Salary Increases	3.0 percent
Discount Rate	3.56 percent
Healthcare cost trend rates	6.5 percent for the fiscal year end 2018, Decreasing .50 percent per year to an ultimate rate of 5.00%

The discount rate is based on the yield of the Fidelity Municipal Bond 20 Year High Grade Rate Index as of the measurement date.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2017	\$ 2,937,000
Changes for the year	
Service cost	156,000
Interest	106,000
Changes of benefit terms	-
Differences between expected and actual	-
Changes in assumptions or other inputs	-
Benefit payments	<u>(226,000)</u>
Net changes	<u>36,000</u>
Total	<u>\$ 2,973,000</u>

Mortality rates were based on the RP-2014 Fully Generation Mortality Table, with base year 2006, using two-dimensional improvement scale MP-2017.

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period July 2016 through June 2017.

- Sensitivity of the total OPEB liability to changes in the discount rate**—The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	1% Decrease	Discount Rate (3.56%)	1% Increase
Total OPEB Liability	\$ 3,163,000	\$ 2,973,000	\$ 2,791,000

- Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates**—The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.5 percent) or 1-percentage-point higher (7.5 percent) than the current healthcare cost trend rates:

	1% Decrease	Discount Rate (Medical-6.5%)	1% Increase
Total OPEB Liability	\$ 2,706,000	\$ 2,973,000	\$ 3,280,000

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$263,000. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Benefit payments and administrative costs made subsequent to the measurement date	69,009	-
Total	\$ 69,009	\$ -

\$69,099 reported as deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019.

Note 9—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 \$198,039 reported at June 30, 2018 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 claim's liability amount are as follows:

Fiscal Years Ended June 30	Beginning of Fiscal Year Liability	Current Year		Balances at Fiscal Year End
		Claims & Changes in Estimates	Claim Payments	
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
2017	258,792	2,051,542	2,147,004	163,330
2018	163,330	2,200,519	2,165,810	198,039

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 10—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 \$31.0 million annually. The District expects to fund these costs out of user charges along with the issuance of additional bonds.

As of June 30, 2018, the District had begun sewer projects expected to incur future costs of approximately \$90.8 million, and the District is committed under various contracts encumbered for sewer construction and rehabilitation estimated to cost \$5.4 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 11—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, 2018. 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, 2018, the Long-Term Debt Service Requirement equaled principal and interest due on January 1, 2018 and July 1, 2018.

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	\$ 42,993,030
Interest and Non-Operating Revenues	970,409
Adjustments to Revenues:	
Interest Income allocable to Non-Operating Funds	(422,085)
Facility, Tap, and Other Fees	(5,428,485)
Gain on Disposal of Property	<u>(10,187)</u>
Adjusted Revenues	<u>38,102,682</u>
Operating Expenses	(26,771,007)
Adjustments to Expenses:	
Pension plan and OPEB contributions net	11,529
Trustee and liquidity expense capitalized	(170,478)
Add back Depreciation	<u>10,393,126</u>
Adjusted Operating Expenses	<u>(16,536,830)</u>
Income Available for Debt Service	<u>\$ 21,565,852</u>
Long-Term Debt Service Requirement	\$ 9,423,689
Minimum Required Percentage	<u>120%</u>
Minimum Required Income	<u>\$ 11,308,427</u>

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 229%.

Note 12—Deferred Outflows and Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Unamortized bond refunding charges	\$ 2,053,921	\$ -
Accumulated decrease in fair value of hedging derivative	2,572,374	-
Pensions – difference between expected and actual experience	109,257	53,684
Pensions – change in assumptions	270,849	-
Pensions – net difference between projected and actual investment earnings	460,476	-
Pensions – changes in proportion and difference between employer contributions and proportionate share of contributions	74,887	-
Contributions to pension plan in 2017-2018 fiscal year	654,448	-
OPEB-benefit payments and administrative cost made subsequent to measurement date	69,099	-
Total	<u>\$ 6,265,311</u>	<u>\$ 53,684</u>

Note 13—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, 2018, 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 \$337,906 if purchased. This is considerably lower than in prior years due to rainfall that was significantly below average levels.

Note 14—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, 2018. 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	\$ 271,544	\$ 154,456
Laboratory Equipment	14,251	-	14,251
Old Administration Building	467,008	136,932	330,076
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, 2018 totaled \$32,241.

Future minimum lease payments are as follows:

Year Ending June 30	Amount
2019	\$ 31,942
2020	28,653
2021	<u>23,877</u>
Total	<u>\$ 84,472</u>

Note 15—Changes in Accounting Principles/Restatement

The District implemented Governmental Accounting Standards Board (GASB) *Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the District to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the District related to OPEB during the measurement date of July 1, 2017. As a result, unrestricted net position decreased \$1,355,500.

Note 16—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.

This page intentionally left blank.

Required Supplemental Information

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

	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset) %	0.124%	0.126%	0.126%	0.125%	0.126%
District's proportionate share of the net pension liability (asset) \$	\$ 1,896,515	\$ 2,678,811	\$ 563,911	\$ (734,825)	\$ 1,517,578
District's covered-employee payroll	\$ 8,600,473	\$ 8,383,296	\$ 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	22.05%	31.95%	7.01%	(9.29%)	19.53%
Plan fiduciary net position as a percentage of the total pension liability	94.18%	91.47%	98.09%	102.64%	94.35%

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

The pension schedules are intended to show information for ten years, and additional years' information will be displayed as it becomes available.

Local Government Employees' Retirement System

Required Supplement Information

Schedule of District Contributions

Last Five Fiscal Years*

	2018	2017	2016	2015	2014
Contractually required contribution	\$ 654,448	\$ 614,323	\$ 553,176	\$ 564,473	\$ 555,232
Contributions in relation to the contractually required contribution	<u>654,448</u>	<u>614,323</u>	<u>553,176</u>	<u>564,473</u>	<u>555,232</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 8,788,983	\$ 8,600,473	\$ 8,383,296	\$ 8,043,516	\$ 7,906,515
Contributions as a percentage of covered-employee payroll	7.45%	7.14%	6.60%	7.02%	7.02%

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

The pension schedules are intended to show information for ten years, and additional years' information will be displayed as it becomes available.

Schedule of Changes in the Total OPEB Liability and Related Ratios

June 30, 2018

	2018
Total OPEB Liability	
Service cost	\$ 156,000
Interest	106,000
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	<u>(226,000)</u>
Net change in total OPEB liability	36,000
Total OPEB liability - beginning	<u>2,937,000</u>
Total OPEB liability - ending	<u>\$ 2,973,000</u>
Covered payroll	\$ 8,261,415
Total OPEB liability as a percentage of covered payroll	35.99%

Notes to Schedule: None

Supplemental Financial Data

Comparative Statement of Net Position

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 29,425,947	\$ 35,797,686
Investments	40,590,705	11,677,023
Restricted cash and cash equivalents	7,823,358	5,580,807
Receivables (net):		
Accounts	6,244,956	5,988,178
Sales	562,227	350,037
Employee	17,483	18,024
Interest	86,872	17,150
Inventories	328,105	307,805
Prepaid expenses	97,749	138,198
Total current assets	<u>85,177,402</u>	<u>59,874,908</u>
Noncurrent assets:		
Restricted cash and cash equivalents	977,151	963,964
Capital Assets:		
Land	2,515,666	2,515,666
Easements	9,713,983	9,311,594
Plant and equipment	587,119,609	569,406,424
Construction in progress	10,668,868	3,798,042
Less: accumulated depreciation	<u>(177,272,293)</u>	<u>(168,308,973)</u>
Total property and equipment	<u>432,745,833</u>	<u>416,722,753</u>
Total noncurrent assets	<u>433,722,984</u>	<u>417,686,717</u>
Total assets	<u>518,900,386</u>	<u>477,561,625</u>
Deferred outflows of resources:	<u>6,265,311</u>	<u>8,218,598</u>
Liabilities and Net Position:		
Current liabilities:		
Payments from current assets:		
Accounts payable and accrued expenses	3,870,919	2,931,938
Current portion of compensated absences payable	32,000	32,000
Payments from restricted cash and cash equivalents:		
Bond interest payable	1,761,605	1,375,104
Current portion of long term debt	5,105,825	4,325,825
Total current liabilities	<u>10,770,349</u>	<u>8,664,867</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	792,938	787,569
Other post-employment benefit	2,973,000	1,355,500
Net pension liability	1,896,515	2,678,811
Derivative liability	2,572,374	3,847,532
Bonds payable, net of current maturities	<u>112,096,186</u>	<u>89,529,003</u>
Total noncurrent liabilities	<u>120,331,013</u>	<u>98,198,415</u>
Total liabilities	<u>131,101,362</u>	<u>106,863,282</u>
Deferred inflows of resources:	<u>53,684</u>	<u>93,869</u>
Net position:		
Net investment in capital assets	318,591,132	324,826,191
Restricted for:		
Debt service	4,990,981	4,205,703
Capital projects	77,384	
Bond covenant	977,151	963,964
Unrestricted	<u>69,374,003</u>	<u>48,827,214</u>
Total net position	<u>\$ 394,010,651</u>	<u>\$ 378,823,072</u>

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

For the Fiscal Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Sewer charges	\$ 36,891,000	\$ 35,521,220
Facility and tap fees	5,357,008	6,977,097
Miscellaneous	745,022	681,243
Total operating revenues	<u>42,993,030</u>	<u>43,179,560</u>
Operating expenses:		
Salaries and employee benefits	7,846,038	7,656,858
Contractual services	1,598,381	1,653,918
Utilities	1,295,636	1,234,029
Repairs and maintenance	985,838	1,019,150
Other supplies and expenses	1,886,837	1,736,302
Insurance claims and expenses	2,765,151	2,467,567
Depreciation	10,393,126	9,929,559
Total operating expenses	<u>26,771,007</u>	<u>25,697,383</u>
Operating income	<u>16,222,023</u>	<u>17,482,177</u>
Nonoperating revenues (expenses):		
Investment income	960,222	343,988
Interest expense	(3,515,801)	(2,794,077)
Bond issuance costs	(355,583)	
Gain (Loss) on disposal of surplus property	10,187	(280,337)
Total nonoperating expenses	<u>(2,900,975)</u>	<u>(2,730,426)</u>
Income before contributions	13,321,048	14,751,751
Capital contribution	<u>3,222,031</u>	<u>3,478,337</u>
Change in net position	16,543,079	18,230,088
Total net position, beginning of year		
As previously reported	378,823,072	360,592,984
Cumulative affect of accounting change	(1,355,500)	
As restated	<u>377,467,572</u>	<u>360,592,984</u>
Total net position, end of year	<u>\$ 394,010,651</u>	<u>\$ 378,823,072</u>

Schedule of Revenues and Expenditures

Budget to Actual (Non-GAAP)

For the Year Ended June 30, 2018

	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Operating revenues:			
Sewer charges (net):			
Domestic users	\$ 31,169,273	\$ 32,036,793	\$ 867,520
Industrial users	3,347,294	4,159,767	812,473
Billings and collections	800,255	795,574	(4,681)
	<u>35,316,822</u>	<u>36,992,134</u>	<u>1,675,312</u>
Facility and tap fees	2,175,000	5,357,008	3,182,008
City of Asheville(Enka Bonds)	37,000	34,522	(2,478)
Rental Income	71,641	81,826	10,185
Miscellaneous	478,780	628,674	149,894
Total operating revenues	<u>38,079,243</u>	<u>43,094,164</u>	<u>5,014,921</u>
Nonoperating revenues:			
Investment income	760,572	960,222	199,650
Total nonoperating revenues	<u>760,572</u>	<u>960,222</u>	<u>199,650</u>
Total revenues	<u>38,839,815</u>	<u>44,054,386</u>	<u>5,214,571</u>
Expenses:			
Operating expenses:			
Salaries and employee benefits		7,632,236	
Contractual services		1,598,381	
Utilities		1,295,636	
Repairs and maintenance		985,838	
Other supplies and expenses		1,886,837	
Insurance claims and expenses		2,799,860	
Total operating expenses	<u>16,842,154</u>	<u>16,198,788</u>	<u>643,366</u>
Capital Projects:			
Equipment		663,909	
Infrastructure		22,522,870	
Total capital projects	<u>28,986,748</u>	<u>23,186,779</u>	<u>5,799,969</u>
Debt service			
Principal		5,105,825	
Interest		4,297,665	
Total debt service	<u>9,790,466</u>	<u>9,403,490</u>	<u>386,976</u>
Total Expenses	<u>55,619,368</u>	<u>48,789,057</u>	<u>6,830,311</u>
Revenues over (under) expenses	<u>(16,779,553)</u>	<u>(4,734,671)</u>	<u>12,044,882</u>
Other Financing Sources:			
Proceeds from long-term obligations	28,000,000	28,514,495	514,495
Use of available funds	(11,220,447)	-	11,220,447
	<u>16,779,553</u>	<u>28,514,495</u>	<u>11,734,942</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 23,779,824</u>	<u>\$ 23,779,824</u>

Schedule of Revenues and Expenditures

Budget to Actual (Non-GAAP)

For the Year Ended June 30, 2018

(continued)

	<u>Actual</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:	
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 23,779,824</u>
Reconciling items:	
Unamortized discount recognized in interest expense	781,864
Debt principal payments	5,105,825
Capital project transfers	22,990,875
Change in allowance for doubtful accounts	(101,134)
Change in compensated absences	(5,369)
Change in health insurance IBNR	34,709
Deferred outflows of resources for contributions made in current fiscal year:	
Pension plan	654,448
OPEB plan	69,099
Pension expense	(473,076)
OPEB expense	(263,000)
Contributed assets	3,222,031
Bond issuance cost	(355,583)
Depreciation	(10,393,126)
Proceeds from long-term obligations	(28,514,495)
Gain (loss) on disposal of surplus property	10,187
	<u>(7,236,745)</u>
Total reconciling items	<u>(7,236,745)</u>
Change in net position	<u>\$ 16,543,079</u>

Combining Schedule of Net Position, All Funds (Non-GAAP)

As of June 30, 2018

	Enterprise Account	Capital Reserve Account
Assets:		
Current assets:		
Cash and cash equivalents	\$ 20,158,009	\$ -
Investments	27,806,337	
Restricted cash and cash equivalents	-	-
Receivables (net):		
Accounts	6,244,956	-
Sales Tax	235,335	-
Employee	17,483	-
Interest	-	-
Due from (to) other accounts/funds	-	-
Inventories	328,105	-
Prepaid expenses	97,749	-
Total current assets	54,887,974	-
Noncurrent assets:		
Restricted cash and cash equivalents	-	977,151
Capital assets:		
Land	-	-
Easements	-	-
Plant and equipment	-	-
Construction in progress	-	-
Less accumulated depreciation	-	-
Total property and equipment	-	-
Total noncurrent assets	-	977,151
Total assets	54,887,974	977,151
Deferred outflow of resources:	1,234,699	-

Combining Schedule of Net Position, All Funds (Non-GAAP)

As of June 30, 2018

(continued)

Bond Service Account	Construction Account	General Account	Capital Account	Total
\$ -	\$ 4,692,807	\$ 4,450,353	\$ 124,778	\$ 29,425,947
	6,473,346	6,138,901	172,121	40,590,705
6,752,586	-	-	1,070,772	7,823,358
-	-	-	-	6,244,956
-	317,153	-	9,739	562,227
-	-	-	-	17,483
-	-	86,872	-	86,872
-	1,070,772	-	(1,070,772)	-
-	-	-	-	328,105
-	-	-	-	97,749
6,752,586	12,554,078	10,676,126	306,638	85,177,402
-	-	-	-	977,151
-	-	-	2,515,666	2,515,666
-	-	-	9,713,983	9,713,983
-	-	-	587,119,609	587,119,609
-	-	-	10,668,868	10,668,868
-	-	-	(177,272,293)	(177,272,293)
-	-	-	432,745,833	432,745,833
-	-	-	432,745,833	433,722,984
6,752,586	12,554,078	10,676,126	433,052,471	518,900,386
-	404,316	-	4,626,296	6,265,311

Combining Schedule of Net Position, All Funds (Non-GAAP)

As of June 30, 2018

(continued)

	Enterprise Account	Capital Reserve Account
Liabilities		
Current liabilities:		
Payments from current assets:		
Accounts payable and accrued expenses	1,708,731	-
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	<u>1,740,731</u>	-
Noncurrent liabilities:		
Compensated absences, net of current portion	792,938	-
Other post-employment benefits	2,973,000	-
Net pension liability	1,419,342	-
Derivative liability	-	-
Long-term obligations, net of current maturities	-	-
Total noncurrent liabilities	<u>5,185,280</u>	-
Total liabilities	<u>6,926,011</u>	-
Deferred inflows of resources	<u>39,196</u>	-
Net position	<u>\$ 49,157,466</u>	<u>\$ 977,151</u>

Combining Schedule of Net Position, All Funds (Non-GAAP)

As of June 30, 2018

(continued)

Bond Service Account	Construction Account	General Account	Capital Account	Total
-	2,142,925	-	19,263	3,870,919
-	-	-	-	32,000
1,761,605	-	-	-	1,761,605
-	-	-	5,105,825	5,105,825
1,761,605	2,142,925	-	5,125,088	10,770,349
-	-	-	-	792,938
-	-	-	-	2,973,000
-	477,173	-	-	1,896,515
-	-	-	2,572,374	2,572,374
-	-	-	112,096,186	112,096,186
-	477,173	-	114,668,560	120,331,013
1,761,605	2,620,098	-	119,793,648	131,101,362
-	14,488	-	-	53,684
\$ 4,990,981	\$ 10,323,808	\$ 10,676,126	\$ 317,885,119	\$ 394,010,651

Combining Schedule of Revenues, Expenses, and Changes in Net Position, All Funds (Non-GAAP)

For the Year Ended June 30, 2018

	Enterprise Account	Capital Reserve Account
Operating revenues:		
Sewer charges (refunds)	\$ 36,891,000	\$ -
Facility and tap fees	-	-
Miscellaneous	<u>673,546</u>	-
Total operating revenues	<u>37,564,546</u>	-
Operating expenses:		
Operations	16,037,746	-
Depreciation	-	-
Total operating expenses	<u>16,037,746</u>	-
Operating income (loss)	<u>21,526,800</u>	-
Nonoperating revenues (expenses):		
Investment income	538,137	13,187
Interest expense	-	-
Less capitalized interest	-	-
Bond issuance costs	-	-
Gain (Loss) on disposal of surplus property	<u>80,282</u>	-
Total nonoperating revenues (expenses)	<u>618,419</u>	<u>13,187</u>
Income (loss) before other transactions	<u>22,145,219</u>	<u>13,187</u>
Capital contribution	-	-
Operating transfers	(13,476,108)	-
Purchase of and transfer capital assets	(663,909)	-
Payment of debt:		
Principal	-	-
Change in net position	<u>8,005,202</u>	<u>13,187</u>
Total net position, beginning of year		
As previously reported	42,507,764	963,964
Cumulative affect of a accounting change	<u>(1,355,500)</u>	-
As restated	<u>41,152,264</u>	<u>963,964</u>
Total net position, end of year	<u>\$ 49,157,466</u>	<u>\$ 977,151</u>

Combining Schedule of Revenues, Expenses, and Changes in Net Position, All Funds (Non-GAAP)

For the Year Ended June 30, 2018

(continued)

Bond Service Account	Construction Account	General Account	Capital Account	Total
\$ -	\$ -	\$ -	\$ -	\$ 36,891,000
-	-	5,357,008	-	5,357,008
-	-	71,476	-	745,022
-	-	5,428,484	-	42,993,030
-	235,667	-	104,468	16,377,881
-	-	-	10,393,126	10,393,126
-	235,667	-	10,497,594	26,771,007
-	(235,667)	5,428,484	(10,497,594)	16,222,023
2,654	305,944	95,570	4,730	960,222
(3,515,801)	-	-	-	(3,515,801)
-	-	-	-	-
-	-	-	(355,583)	(355,583)
-	-	-	(70,095)	10,187
(3,513,147)	305,944	95,570	(420,948)	(2,900,975)
(3,513,147)	70,277	5,524,054	(10,918,542)	13,321,048
-	-	3,222,031	-	3,222,031
8,624,250	32,507,107	(483,480)	(27,171,769)	-
-	(22,528,740)	(3,222,031)	26,414,680	-
(4,325,825)	-	-	4,325,825	-
785,278	10,048,644	5,040,574	(7,349,806)	16,543,079
4,205,703	275,164	5,635,552	325,234,925	378,823,072
-	-	-	-	(1,355,500)
4,205,703	275,164	5,635,552	325,234,925	377,467,572
\$ 4,990,981	\$ 10,323,808	\$ 10,676,126	\$ 317,885,119	\$ 394,010,651

This page intentionally left blank.



Statistical Section

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

Introduction (continued)

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.

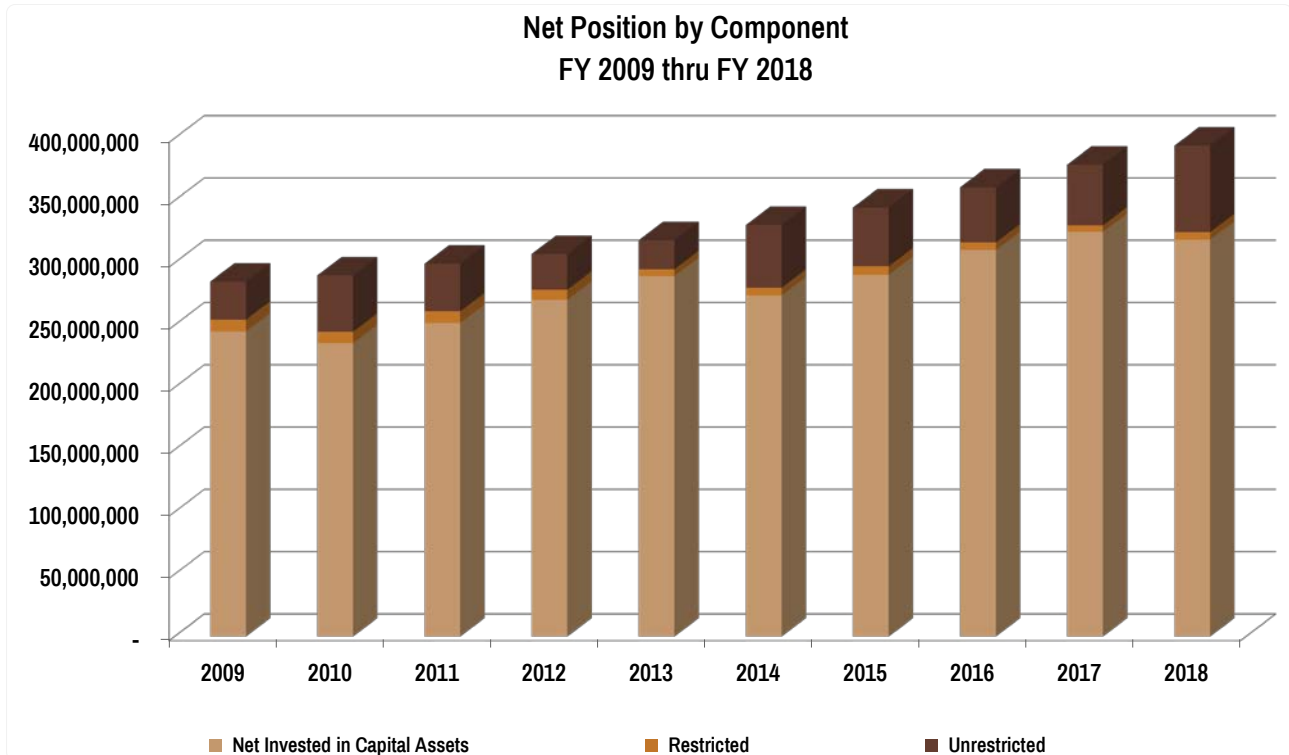
- **Employees by Division**
- **Operating Indicators by Division**

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

Net Position by Component

FY 2009 to FY 2018

Fiscal Year Ended June 30	Net Invested in Capital Assets	Restricted	Unrestricted	Total Net Position
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
2017	324,826,191	5,169,667	48,827,214	378,823,072
2018	318,591,132	6,045,516	69,374,003	394,010,651



Changes in Net Position

FY 2009 to FY 2018

(Accrual Basis of Accounting)

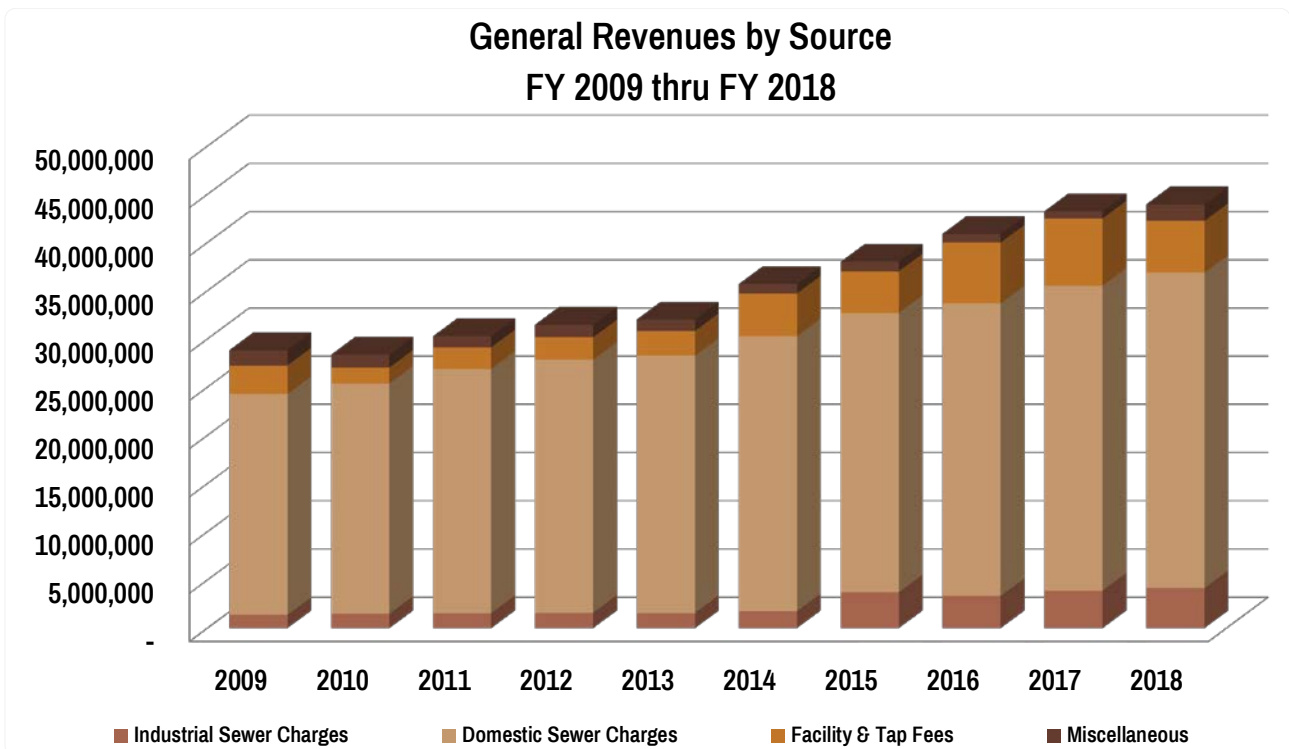
	FISCAL YEAR									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating revenues:										
Sewer charges	\$ 24,290,719	\$ 25,369,818	\$ 26,894,894	\$ 27,849,176	\$ 28,268,950	\$ 30,287,440	\$ 32,617,886	\$ 33,679,560	\$ 35,521,220	\$ 36,891,000
Facility and tap fees	2,959,115	1,654,010	2,238,171	2,321,474	2,566,635	4,430,475	4,311,259	6,324,596	6,977,097	5,357,008
Miscellaneous	509,239	770,389	612,721	907,987	663,003	728,937	757,619	764,928	681,243	745,022
Total operating revenues	27,759,073	27,794,217	29,745,796	31,078,637	31,498,488	35,446,852	37,686,764	40,769,084	43,179,560	42,993,030
Operating expenses:										
Salaries & employee benefits	6,181,775	6,303,951	6,536,352	6,863,907	6,878,737	7,019,623	6,758,251	7,183,043	7,856,858	7,846,038
Contractual services	1,387,098	1,240,175	1,337,258	1,452,459	1,230,543	1,247,204	1,398,288	1,472,795	1,653,918	1,598,381
Utilities	1,298,053	1,111,644	1,234,810	1,106,158	1,013,310	1,059,709	1,144,711	1,058,299	1,234,029	1,295,636
Repairs and maintenance	877,124	851,966	927,655	958,738	971,919	982,524	938,977	998,758	1,019,150	985,838
Other supplies and expenses	1,337,610	1,468,655	1,344,307	1,545,557	1,616,021	1,662,793	1,545,531	1,500,249	1,736,302	1,886,837
Insurance claims and expenses	1,726,889	1,778,336	2,142,086	2,255,450	1,963,988	2,109,844	2,682,426	2,890,973	2,467,567	2,765,151
Depreciation	8,520,993	8,556,365	7,520,744	7,881,340	7,965,835	8,310,114	8,543,402	9,332,957	9,929,559	10,393,126
Total operating expenses	21,329,342	21,311,092	21,043,212	21,663,609	21,640,353	22,391,811	23,011,586	24,537,074	25,697,383	26,771,007
Operating income	6,429,731	6,483,125	8,702,574	9,415,028	9,858,135	13,055,041	14,675,178	16,232,010	17,482,177	16,222,023
Nonoperating revenues (expenses):										
Investment Income	1,047,587	578,302	493,002	311,807	507,644	175,797	209,220	237,604	343,988	960,222
Interest Expense	(3,203,405)	(2,934,980)	(2,619,031)	(2,534,946)	(2,132,131)	(2,104,758)	(2,771,525)	(2,586,670)	(2,794,077)	(3,515,801)
Amortization of bond issuance costs	(73,887)	(145,827)	(156,120)	(144,851)	-	-	-	-	-	-
Bond issuance costs	-	-	-	-	(393,694)	(434,357)	-	-	-	(355,583)
Gain (loss) on sale of surplus property	22,150	67,099	42,232	86,165	14,410	67,663	17,258	(106,997)	(280,337)	10,187
Total nonoperating revenues (expenses)	(2,207,555)	(2,435,406)	(2,239,917)	(2,281,625)	(2,003,771)	(2,295,655)	(2,545,047)	(2,456,063)	(2,730,426)	(2,900,975)
Income before contributions & special items	4,222,176	4,047,719	6,462,657	7,133,403	7,854,364	10,759,386	12,130,131	13,775,947	14,751,751	13,321,048
Capital contribution	5,856,798	1,128,684	2,841,859	2,047,550	3,217,846	1,396,385	3,078,520	2,392,781	3,478,337	3,222,031
Change in Net Position	\$ 10,078,974	\$ 5,176,403	\$ 9,304,516	\$ 9,180,953	\$ 11,072,210	\$ 12,155,771	\$ 15,208,651	\$ 16,168,728	\$ 18,230,088	\$ 16,543,079

General Revenues by Source

FY 2009 to FY 2018

Fiscal Year Ended June 30	Industrial Sewer Charges	Domestic Sewer Charges	Facility & Tap Fees	Miscellaneous	Total
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
2017	3,909,925	31,611,295	6,977,097	744,894	43,243,211
2018	4,159,767	32,731,233	5,357,008	1,715,431	43,963,439

Note: Does not include Capital Contributions.



Expenses by Function (Non-GAAP)

FY 2009 to FY 2018

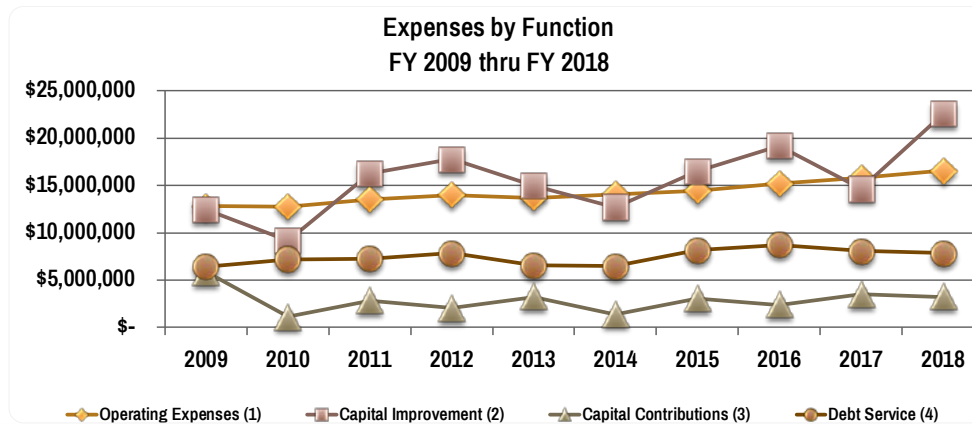
Fiscal Year Ended June 30	Operating Expenses ⁽¹⁾	Capital Improvement ⁽²⁾	Capital Contributions ⁽³⁾	Debt Service ⁽⁴⁾	Total
2009	12,808,349	12,447,791	5,856,798	6,413,405	37,526,343
2010	12,754,727	9,173,231	1,128,684	7,212,980	30,269,622
2011	13,522,468	16,226,145	2,841,859	7,255,856	39,846,328
2012	13,982,269	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
2017	15,767,824	14,631,155	3,478,337	8,069,902	41,947,218
2018	16,536,830	22,528,740	3,222,031	7,841,626	50,129,227

¹Includes general operations

²Excludes depreciation expense.

³This includes collection system infrastructure contributed by developers.

⁴Includes 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 2009 to FY 2018

	FISCAL YEAR									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Domestic Users										
Asheville	\$ 17,930,855	\$ 18,669,278	\$ 19,638,890	\$ 20,243,750	\$ 20,856,426	\$ 21,527,715	\$ 22,423,891	\$ 23,494,692	\$ 24,518,045	\$ 25,487,028
Biltmore Forest	282,656	275,621	286,574	310,060	316,932	318,743	366,741	366,135	348,323	322,377
Black Mountain	888,368	905,930	921,612	1,013,611	984,242	1,001,650	1,052,869	1,069,901	1,096,604	1,169,878
Henderson County	925,744	813,927	1,044,736	1,090,551	718,582	1,129,721	1,203,477	1,250,146	1,447,613	1,493,912
Montreat	207,087	242,821	233,859	253,546	278,739	243,406	256,944	260,871	268,045	244,133
Weaverville	602,232	6,120	608,323	648,722	660,062	671,221	749,113	814,691	887,368	932,060
Woodfin Sanitary Water & Sewer District	758,294	803,368	924,567	912,414	989,107	1,024,986	1,049,061	1,084,717	1,120,014	1,171,111
Other	1,309,351	1,548,361	1,670,931	1,776,703	1,886,844	2,611,180	1,790,206	1,994,333	1,925,283	1,910,734
Industrial Users	1,386,132	1,498,529	1,565,402	1,599,819	1,577,916	1,758,818	3,725,584	3,344,074	3,909,925	4,159,767
Total	<u>\$ 24,290,719</u>	<u>\$ 24,763,955</u>	<u>\$ 26,894,894</u>	<u>\$ 27,849,176</u>	<u>\$ 28,268,850</u>	<u>\$ 30,287,440</u>	<u>\$ 32,617,886</u>	<u>\$ 33,679,560</u>	<u>\$ 35,521,220</u>	<u>\$ 36,891,000</u>

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 2009 to FY 2018

	FISCAL YEAR									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Asheville	37,878	37,878	41,332	40,732	40,420	40,620	41,020	41,634	42,242	42,298
Woodfin Sanitary Water & Sewer District	2,579	2,306	2,317	2,317	2,353	2,422	2,469	2,527	2,557	2,567
Black Mountain	2,579	2,559	2,572	2,544	2,637	2,647	2,642	2,729	2,788	2,854
Weaverville	1,503	2,246	2,281	2,318	2,376	1,694	1,740	1,779	1,830	1,901
Henderson County	3,073	3,165	3,182	3,240	3,275	3,417	3,512	3,774	3,898	3,964
Biltmore Forest	636	644	639	650	650	650	653	662	649	649
Montreat	652	656	667	669	671	663	666	666	669	669
Total	<u>48,900</u>	<u>49,454</u>	<u>52,990</u>	<u>52,470</u>	<u>52,382</u>	<u>52,113</u>	<u>52,702</u>	<u>53,771</u>	<u>54,633</u>	<u>54,902</u>

Source: Member Agencies

Residential Sewer Rates

FY 2009 to FY 2018

Fiscal Year Ended June 30	Monthly Base Rate	Rate Per 1,000 Gallons	Average Monthly Billing
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
2017	6.77	5.87	29.88
2018	6.94	6.02	30.62

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 2009 & FY 2018

Commercial User	Type of Business	2009			2018		
		Total Charges	Rank	Percentage of Total Charges	Total Charges	Rank	Percentage of Total Charges
Milkco, Inc.	Dairy Products & Juices	\$ 529,795	1	2.18%	\$ 701,841	1	1.90%
Jacob Holm Industries America	Textile Manufacturing	60,693	6	0.25%	671,882	2	1.82%
New Belgium Brewing	Micro-Brewery Manufacturer	-----			531,826	3	1.44%
Mission Health System	Health & Emergency Services	241,158	2	0.99%	342,354	4	0.93%
Sierra Nevada	Micro-Brewery Manufacturer	-----			262,696	5	0.71%
Duke Progress Energy	Electric Utility	-----			244,789	6	0.66%
Ridgecrest Baptist Conference Center	Christian Conference Center	163,766	3	0.67%	212,537	7	0.58%
VA Medical Center	Veterans Hospital	93,395	4	0.39%	162,387	8	0.44%
- Asheville Department of Veterans Affairs							
The Biltmore Company	Tourist Attraction/Winery/Resort Services	60,210	7	0.25%	145,615	9	0.40%
Mission Hospital Laundry	Hospital Laundry Services	-----			144,276	10	0.39%
BONAR	Chemical Manufacturer	83,455	5	0.35%			
-(formerly Colbond)							
Day International	Textile Machine Parts	49,340	8	0.20%			
UNC-Asheville		48,849	9	0.20%			
Arcadia Beverage	Beverage Supplier for local/global retailer	48,810	10	0.20%			
TOTAL		\$ 1,379,471		5.68%	\$ 3,420,203		9.27%

Source: District Billing Records

Ratio of Outstanding Debt

FY 2009 to FY 2018

Fiscal Year	Total Outstanding Debt ¹	Debt Per Capita ²	Per Capita Income ³	Percentage of Personal Income
2009	91,759,237	816	34,146	2.39%
2010	104,804,725	921	34,144	2.70%
2011	99,967,436	820	35,566	2.31%
2012	94,534,320	783	37,495	2.09%
2013	86,909,009	721	37,278	1.94%
2014	110,407,625	921	39,770	2.32%
2015	104,325,293	857	42,293	2.03%
2016	97,627,539	789	43,232	1.83%
2017	91,896,562	731	Unavailable	-
2018	115,148,090	912	Unavailable	-

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

²This 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.

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

See Personal Income by Industry on page 101 to assess economic base of the County.

Revenue Bond Coverage

FY 2009 to FY 2018

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.

Revenue Bond Coverage

FY 2009 to FY 2018

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.

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
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	15,688,258	18,841,310	9,003,519	10,804,223	9,837,791	2.09
2017	36,402,135	16,280,644	20,121,491	7,918,557	9,502,268	12,202,934	2.54
2018	38,102,682	16,536,830	21,565,852	9,423,689	11,308,427	12,142,163	2.29

(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 2009 to FY 2018

Fiscal Year Ended June 30	Population Estimates ¹	Per Capita Income ²	Median Age ¹	Civilian Labor Force ³		
				Employed	Unemployed	Unemployment Rate
2009	236,349	34,146	40.8	111,852	10,675	8.7%
2010	238,328	34,144	40.7	113,978	10,716	8.6%
2011	241,224	35,566	41.0	115,209	10,337	8.2%
2012	243,741	37,495	41.2	117,764	9,628	7.6%
2013	246,948	37,278	41.4	120,887	8,218	6.4%
2014	249,302	39,770	41.7	121,889	6,082	4.8%
2015	252,149	42,293	41.8	125,074	6,205	4.7%
2016	255,334	43,232	41.9	129,287	5,318	3.9%
2017	257,607	Unavailable	42.1	132,228	4,736	3.5%
2018	Unavailable	Unavailable	Unavailable	135,665	4,515	3.2%

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:

¹U.S. Census Bureau, Population Division

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

³North Carolina Department of Commerce, Division of Employment Security

Personal Income by Industry

CY 2009 to CY 2018

	Calendar Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Personal Income	\$ 5,854,999	\$ 5,905,963	\$ 6,029,996	\$ 6,404,353	\$ 6,599,188	\$ 7,116,827	\$ 7,597,403	\$ 7,980,058	Unavailable	Unavailable
Farm earnings	21,980	19,446	24,553	20,145	29,905	38,548	41,600	37,670	-	-
Nonfarm earnings	5,833,019	5,886,517	6,005,443	6,384,208	6,569,283	7,078,279	7,555,803	7,942,388	-	-
Private earnings	4,790,558	4,823,508	4,944,310	5,306,596	5,504,613	6,015,967	6,477,882	6,840,463	-	-
Agricultural services, forestry, fishing	2,903	5,209	4,402	5,312	6,015	6,205	5,998	6,432	-	-
Mining	5,253	7,206	6,539	6,942	5,816	6,383	6,647	5,882	-	-
Construction	395,116	354,502	347,604	364,281	336,507	379,374	436,894	471,931	-	-
Manufacturing	688,841	680,322	667,176	703,079	702,112	754,876	835,355	883,081	-	-
Durable goods	508,225	499,387	484,445	505,361	504,599	533,570	539,916	528,426	-	-
Nondurable goods	180,616	180,935	182,731	197,718	197,513	221,306	295,439	354,655	-	-
Wholesale trade	203,287	216,781	225,873	220,328	216,548	238,617	253,364	256,398	-	-
Retail Trade	461,098	465,449	478,461	509,301	530,458	562,691	602,357	637,561	-	-
Transportation and public utilities	209,742	214,920	224,373	238,721	245,099	257,210	289,988	260,005	-	-
Services	2,824,318	2,879,119	2,989,882	3,258,632	3,462,058	3,810,611	4,047,279	4,317,173	-	-
Government and government enterprises	1,042,461	1,063,009	1,061,133	1,077,612	1,064,670	1,062,312	1,077,921	1,101,925	-	-
Federal, civilian	295,352	311,588	323,635	335,245	324,667	317,128	319,712	324,900	-	-
Military	27,588	26,064	26,143	26,630	25,437	24,840	23,639	24,461	-	-
State and local	719,521	725,357	711,355	715,737	714,566	720,344	734,570	752,564	-	-

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 2009 to FY 2018

Employer	FY 2009			FY 2018		
	Employees	Rank	% of Total County Employment	Employees*	Rank	% of Total County Employment
Mission Health System & Hospitals	6,990	1	5.93%	3,000+	1	2.21%+
Buncombe County Public Schools	4,010	2	3.39%	3,000+	2	2.21%+
Asheville-Buncombe Technical Community College	-----			1,000-2,999	3	0.74% - 2.21%
The Biltmore Company	1,580	5	1.34%	1,000-2,999	4	0.74% - 2.21%
Buncombe County Government	1,670	4	1.42%	1,000-2,999	5	0.74% - 2.21%
City of Asheville	1,000	9	0.85%	1,000-2,999	6	0.74% - 2.21%
Ingles Markets, Inc.	3,050	3	2.59%	1,000-2,999	7	0.74% - 2.21%
Omni Grove Park Inn	1,100	7	0.93%	1,000-2,999	8	0.74% - 2.21%
VA Medical Center - Asheville	1,140	6	0.97%	1,000-2,999	9	0.74% - 2.21%
Eaton Corporation - Electrical Division	1,010	8	0.85%	750-999	10	0.55% - 0.74%
Borgwarner Turbo & Emissions Systems	830	10	0.70%	-----		
Total for Principal Employers	22,380		<u>20.01%</u>	<u>13,750 - 21,992</u>		<u>10.14% - 16.21%</u>

* 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 2009 to FY 2018

Department	FISCAL YEAR									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Office of the General Manager										
Office Support	1	1	1	1	1	1	1	1	1	1
Human Resources Department										
Human Resource	3	3	3	3	3	3	3	3	3	3
Environmental, Health & Safety	2	2	2	2	2	2	2	2	2	2
Information Technology Department										
IT & MIS	5	5	5	5	5	5	5	5	5	5
Geographic Information Systems	4	4	4	4	4	4	4	4	4	4
Financial Services Department										
Finance & Budget	1	1	1	1	1	1	1	1	1	1
Accounting, Investments & Cash Flow Mgmt.	3	3	3	3	3	4	4	4	3	3
Purchasing & Warehouse	3	3	3	3	3	3	3	3	3	3
Water Reclamation Facility										
Office Support	0	0	0	0	0	0	0	1	1	1
Plant Operations	13	13	11	11	11	10	11	11	11	12
Industrial Waste	4	4	5	5	5	5	5	5	5	5
Mechanical Maintenance	8	8	8	8	0	0	0	7	7	7
Electrical Maintenance/Hydro	8	8	8	8	16	15	12	7	4	4
Fleet Maintenance	4	4	4	4	4	4	4	4	4	4
Structural Maintenance	5	5	6	6	6	6	6	6	6	6
System Services Department										
Office Support	4	4	4	4	4	4	4	4	4	4
Pump Station Maintenance	0	0	0	0	0	0	0	0	3	3
System Services	52	52	52	51	51	51	54	51	54	54
Engineering Services Department										
Office Support	1	1	1	1	1	1	1	1	0	0
Right of Way	3	3	3	3	3	3	3	3	3	3
Construction Administration	5	5	5	5	5	5	5	5	5	5
Planning and Development	7	7	7	5	5	5	3	4	3	3
Design and Drafting	3	3	3	3	3	4	3	3	4	3
Engineers	3	3	3	3	3	3	5	4	4	4
Management										
Division Heads	7	7	7	8	8	8	7	7	7	7
General Manager	1	1	1	1	1	1	1	1	1	1
Total	<u>150</u>	<u>150</u>	<u>150</u>	<u>148</u>	<u>148</u>	<u>148</u>	<u>147</u>	<u>147</u>	<u>148</u>	<u>148</u>

Operating Indicators by Division

FY 2009 to FY 2018

DEPARTMENT	FISCAL YEAR									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Engineering Services Department										
Sewer Tap Applications	983	1,094	925	876	1,356	1,594	1,382	1,177	1,631	1,443
Plans Reviewed	101	47	37	33	92	69	62	66	76	78
Linear Feet of rehabilitated Sewer Systems	45,175	45,450	49,099	52,641	43,519	51,110	46,729	42,675	49,782	49,918
Linear Feet of Accepted Sewer Systems	77,572	10,400	52,856	25,550	44,309	18,314	29,185	43,616	32,945	39,888
Human Resources Department										
Number of workforce injuries	11	11	7	11	5	12	5	5	5	5
Lost Work Rate per 100 employees	3.00	7.02	4.82	5.52	3.46	7.85	3.48	3.48	3.48	3.46
System Services Department										
Average Response Time to sewer problem (hours)	0.49	0.52	0.59	0.55	0.51	0.52	0.55	0.52	0.52	0.51
Lines Washed (lineal feet) - in-house only	920,525	1,019,852	584,461	873,077	807,746	699,543	729,451	730,000	885,687	1,124,220
Construction Repairs to Sewer Lines	528	447	486	523	507	589	543	500	555	508
Taps Installed	211	225	196	208	199	218	239	234	358	351
Manhole Repairs	458	461	404	436	342	355	376	294	330	323
Sanitary Sewer Overflows	23	34	24	25	37	36	37	53	30	25
Pump Stations	31	31	32	32	32	32	32	31	30	30
Water Reclamation Facility										
Sanitary Sewers (approximate miles)	920	960	960	960	977	1,000	1,000	1,000	1,020	1,027
Treatment Provided (millions of gallons)	6,022.50	7,774.50	6,752.50	6,825.50	7,993.50	8,358.50	6,971.50	7,884.00	7,117.50	7,592.00
Daily (average) flow treated (millions of gallons daily)	16.5	21.3	18.5	18.7	21.9	22.9	19.1	21.6	19.5	20.8
Maximum daily flow treated (millions of gallons daily)	40.7	57.8	56.8	50.2	62.1	74.6	39.0	67.1	53.0	64.8
Percentage of plant capacity used	41.3%	53.3%	46.3%	46.8%	54.8%	57.3%	47.8%	54.0%	48.8%	52.0%
Cost per millions of gallons treated	\$ 877	\$ 675	\$ 803	\$ 801	\$ 617	\$ 614	\$ 735	\$ 735	\$ 767	\$ 718
Energy cost per millions of gallons treated	\$ 180	\$ 116	\$ 151	\$ 136	\$ 119	\$ 101	\$ 115	\$ 96	\$ 117	\$ 121
Total suspended solids (TSS) removal efficiency (%)	91%	90%	90%	90%	93%	96%	97%	97%	97%	97%
Inspection of Significant Industrial Users	24	18	23	18	17	18	18	21	23	22
Restaurant inspections for Grease Reduction Compliance	890	846	606	906	1,364	1,190	1,229	1,017	1,192	1,251

Source: District Operational Records



Compliance Section

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, 2018 and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated October 22, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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 22, 2018