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# COMPREHENSIVE ANNUAL Financial Report



*Fiscal Year Ended June 30, 2014*

# Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2014

## PRINCIPAL OFFICIALS

### Board Member

M. Jerry VeHaun, Chairman  
E. Glenn Kelly, Vice-Chairman  
Jackie W. Bryson,  
Secretary/Treasurer  
Matt Ashley, Jr.  
Joe Belcher  
Ellen Frost  
Esther Manheimer  
Chris Pelly  
Al P. Root  
Bill Russell  
Bill Stanley  
Robert C. Watts

### Representative of

Town of Woodfin  
Town of Biltmore Forest  
Woodfin Sanitary  
Water & Sewer  
Town of Montreat  
County of Buncombe  
County of Buncombe  
City of Asheville  
City of Asheville  
Town of Weaverville  
City of Asheville  
County of Buncombe  
Town of Black Mountain

Roberts & Stevens, P.A.  
Cherry Bekaert L.L.P.  
McGill & Associates

**Legal Counsel**  
**Auditing Firm**  
**Engineer of Record**

Thomas E. Hartye, P.E.  
W. Scott Powell, CLGFO

**General Manager**  
**Director of Finance**



**Phone:** (828) 254-9646    **Fax:** (828) 232-5530

**Website:** [www.msdbc.org](http://www.msdbc.org)

## Table of Contents

### INTRODUCTORY SECTION

### FINANCIAL SECTION

1	Letter of Transmittal	1
	Certificate of Achievement for Excellence in Financial Reporting (GFOA)	9
	Map of District Boundary	10
	Principal Officials	11
	Organizational Chart	12
13	Report of Independent Auditor	13-15
	Management's Discussion and Analysis	16-23
	<b>Basic Financial Statements</b>	
	Statement of Net Position	25
	Statement of Revenues, Expenses, and Changes in Net Position	26
	Statement of Cash Flows	27
	Notes to Basic Financial Statements	28-54
	<b>Required Supplemental Information</b>	
	Other Post-Employments Benefits – Schedule of Funding Progress	55
	Other Post-Employment Benefits – Employer Contributions & Notes to the Required Schedules	56
	<b>Supplemental Financial Data</b>	
	Comparative Statement of Net Position	58
	Comparative Statement of Revenues, Expenses, and Changes in Net Position	59
	Schedule of Revenues and Expenditures – Budget to Actual ( <i>Non-GAAP</i> )	60-61
	Combining Schedule of Net Position, All Funds ( <i>Non-GAAP</i> )	62-63
	Combining Schedule of Revenues, Expenses, and Changes in Net Position, All Funds – ( <i>Non-GAAP</i> )	64-65

## Table of Contents

### STATISTICAL SECTION

67

Introduction	67-68
Net Position by Component	69
Changes in Net Position ( <i>Accrual Basis of Accounting</i> )	70
General Revenues by Source	71
Expenses by Function ( <i>Non-GAAP</i> )	72
Sewer Charge Revenue by Customer Type	73
Customer Accounts by Member Agency	74
Residential Sewer Rates	75
Principal Commercial Users	76
Ratio of Outstanding Debt	77
Revenue Bond Coverage	78-79
Demographic & Economic Statistics	80
Personal Income by Industry	81
Principal Employers	82
Staffing History (FTE's)	83-85
Operating Indicators by Division	86-88

### COMPLIANCE SECTION

89

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	89-90
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# Introductory Section



# Metropolitan Sewerage District

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## OF BUNCOMBE COUNTY, NORTH CAROLINA

December 17, 2014

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, 2014. State law requires local governments to publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. MSD's Bond Order requires release of such audited financial statements within seven months of the close of the fiscal year. This CAFR presents MSD's financial statements, and adds this transmittal letter and statistical data to assist the reader in analyzing our financial statements.

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

Cherry Bekaert, LLP, a firm of licensed certified public accountants, has audited the financial statements. The goal of the independent audit was to provide reasonable but not absolute assurance that MSD's financial statements for the fiscal year ended June 30, 2014, 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, 2014, 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

### Overview

The District was created by the state of North Carolina in 1962 to provide a wastewater treatment plant serving the City of Asheville and surrounding communities, including Biltmore Forest, Weaverville, Black Mountain, Montreat, Woodfin, the Woodfin Sanitary Water & Sewer District, and certain other unincorporated areas of Buncombe County. Through separate contractual arrangements, the District also serves customers in the Cane Creek Water and Sewer District in northern Henderson County and in the Avery Creek Sanitary Sewer District in southern Buncombe County. The collection system has been extended over the years as a result of expansion and development, and now collects wastewater through approximately 1,000 miles of sewer line with 28,000 manholes and serves over 53,000 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 1,028,000 linear feet of existing sewer line have been replaced since consolidation, representing over 19.5% of the entire collection system. In addition, the District expects to replace another 250,000 feet of existing sewer lines over the next five



years as mandated by our Collection System Permit. The District also has an aggressive program in effect for systematic preventative maintenance of collector sewers. The lines are first cleaned using water under high pressure and then are videotaped. The cleaning reduces line blockages and overflows, and the videotapes enable the District to locate and repair problems in the lines. The District cleans and inspects by videotaping between 15% and 20% of its system each year.

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

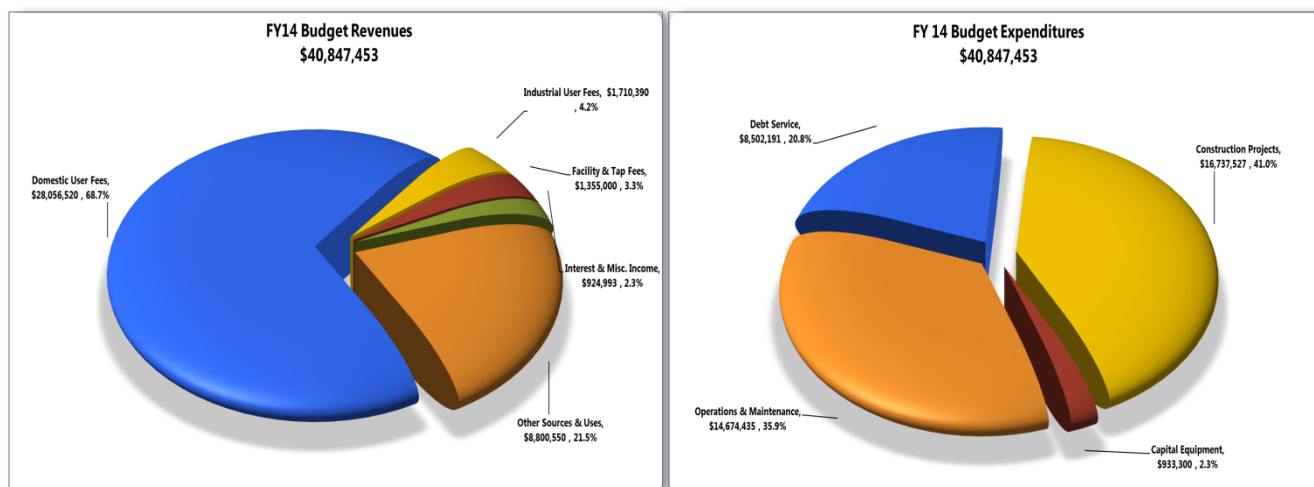
Member agencies providing water service include the sewer fees on their water bills and provide customer service and collection services to the District for a negotiated fee. However, the District direct bills about 425 customers, predominantly local industries, and private residences served by wells,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

### 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, 2014 may be found in the supplemental information following the notes to the financial statements.



## Factors Affecting Financial Condition

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

### 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.

### Long-Term Financial Planning

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

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

The District is currently underway with an update of its Facilities Plan. This significant, comprehensive study will recommend various options for the future of the treatment plant. The study is focusing on future regulatory requirements, the viability of existing processes, long-term costs, and needed performance. This plan will help the District continue to protect our local environment by implementing the latest technologies in a phased, cost-efficient manner.

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 the regional 1,000-mile collection system, as well as the plant facility. Since 1991, the time that MSD assumed ownership and maintenance of the local public collection systems, over \$322.6 million has been re-invested back into the system.



**New Backup Generators and Controls, in Foreground**

### Electrical Upgrades at the Water Reclamation Facility

The District recently completed a significant upgrade of the plant's electrical system. This \$2.5 million, multi-year project has significantly improved the redundancy of the plant's electrical power. The plant now has two separate incoming electrical sources from Duke-Progress, upgraded switches & wiring within the plant, and two additional backup power generators. In the event of complete loss of power - the plant can now maintain full treatment of wastewater.

### Macon Avenue @ Sunset Parkway Sewer Rehabilitation Project

The District rehabilitates approximately 50,000 feet of public sewer line each year. One of the larger rehabilitation projects this past year was the "Macon Avenue @ Sunset Parkway" project, which began near Charlotte Street and extended up Macon Avenue. Due to traffic concerns and the extensive work in the street, MSD utilized "Pipe Bursting" for much of this project. This trenchless process not only minimized traffic disruption in this busy area, but also saved money by reducing the amount of restoration required.



**Macon Avenue @ Sunset Parkway Project**



Old US 70 @ Grovemont Project

### Old US 70 @ Grovemont Sewer Rehabilitation Project

The largest rehabilitation project for FY13-14 was the “Old US 70 @ Grovemont” project, at approximately 4,700 feet. This project was located in the Swannanoa area along a busy section of road. Complicating the rehabilitation was the presence of a high-pressure gas main, which required constant monitoring by the gas company. In addition, one of the two large water mains from the North Fork Reservoir was in very close proximity, which required extreme care during installation of the new line.

### 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 36 in FY2014.



Example of Stream Crossing

### Management Award Recognition

The District was recognized once again for outstanding wastewater treatment efforts by the National Association of Clean Water Agencies (NACWA – formerly AMSA) and received the prestigious NACWA Gold Award signifying consistent NPDES permit compliance during the 2013 calendar year. This marks the thirteenth consecutive year the District has been honored with a “Peak Performance Award” representing continued excellence in environmental protection.

NACWA has established the Excellence in Management Recognition Program to recognize public clean water utilities that implement progressive management initiatives and thereby advance the goals of the Clean Water Act. NACWA is committed to clean water and a healthy environment and strives to help ensure that member agencies have the tools they need to meet these objectives. MSD was one of only four national recipients of this award in 2009.



In November 2012, MSD received the Collection System of the Year Award (Large System), from the N.C. American Water Works Association - Water Environment Association (NC AWWA-WEA). This award, only one of which was awarded statewide, recognizes MSD's significant activities regarding collection system management, operation & maintenance, and capital re-investment/rehabilitation of the collection system.

## 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 36 minutes in FY2014.

## Environmental Regulations Compliance

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

The current MSD Collection System permit requires replacement or rehabilitation of at least 400,000 linear feet (LF) of sewer main over an eight-year period. In FY2014, the District completed in excess of 51,110 LF, over 20,031 of which were performed by District forces. Over the past seven years, the District has rehabilitated a total of 356,711 LF of sewer main, and is well underway to meet permit requirements.

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 769,000 linear feet.



View of the MSD Treatment Facility

## 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, 2013. This was the nineteenth 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.

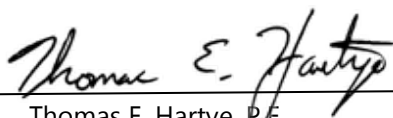
In addition, the District also received the GFOA's Distinguished Budget Presentation Award for its annual 2014 budget document. In order to qualify for the Distinguished Budget Presentation Award, the District's budget document was judged proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device. This was the seventeenth consecutive year that the District has achieved this award.

## Acknowledgments

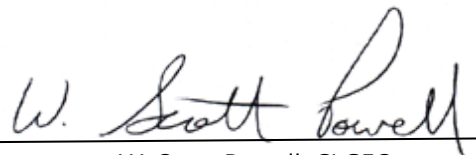
The preparation of this report could not have been accomplished without the dedicated services of staff throughout the District and the District's independent auditor, Cherry Bekaert LLP. We would like to acknowledge the hard work and dedication of Cheryl Rice, the District's Accounting Manager. In addition,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

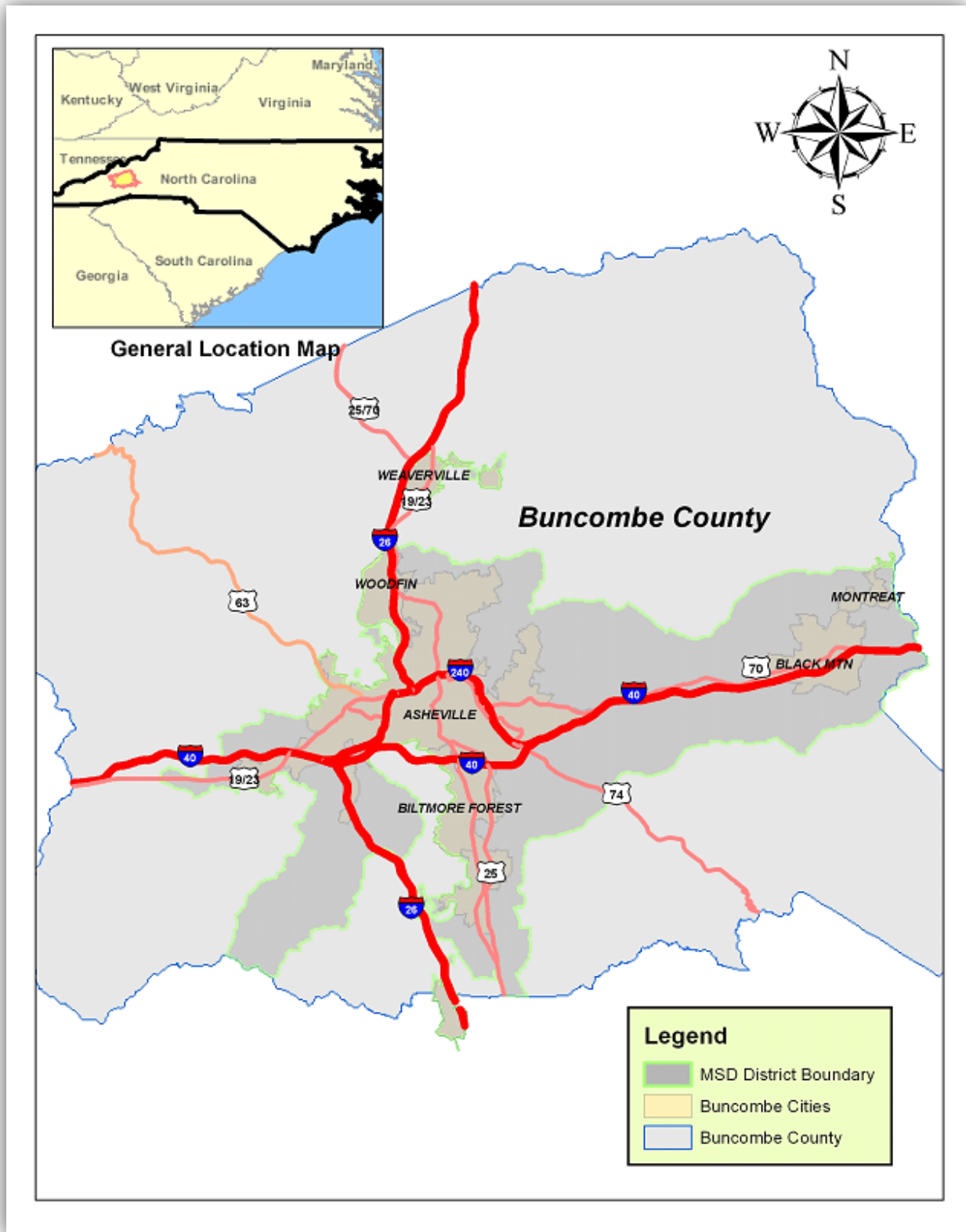
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

A handwritten signature in black ink that reads "Jeffrey R. Emer". The signature is written in a cursive style.

Executive Director/CEO

## Map of District Boundary





## Principal Officials

<b><u>Board Members</u></b>	<b><u>Representative of</u></b>
Matt Ashley, Jr.	Town of Montreat
Jackie W. Bryson	Woodfin Sanitary Water & Sewer District
Joe Belcher	County of Buncombe
Ellen Frost	County of Buncombe
E. Glenn Kelly	Town of Biltmore Forest
Esther Manheimer	City of Asheville
Chris Pelly	City of Asheville
Al Root	Town of Weaverville
Bill Russell	City of Asheville
Bill Stanley	County of Buncombe
M. Jerry VeHaun	Town of Woodfin
Robert C. Watts	Town of Black Mountain

**Legal Counsel**  
Roberts & Stevens, P.A.

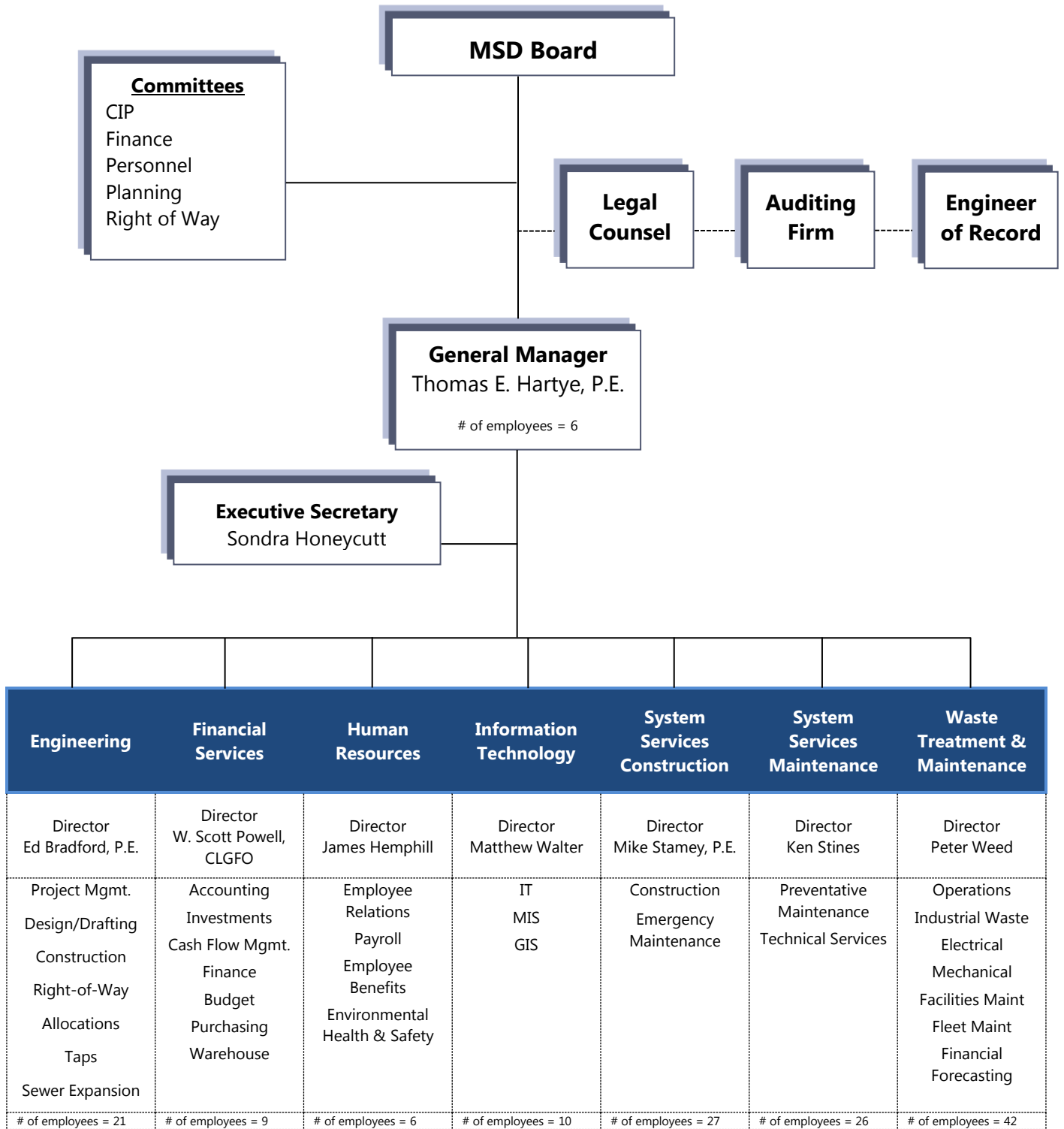
**Auditing Firm**  
Cherry Bekaert, L.L.P.

**Engineer of Record**  
McGill & Associates

**General Manager**  
Thomas E. Hartye, P.E.

**Director of Finance**  
W. Scott Powell, CLGFO

# Organizational Chart



**Number of Employees: 147**

———— 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 the 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, 2014, 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, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### Required Supplementary Information

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

### Other Information

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

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

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2014 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.

Handwritten signature in black ink that reads "Cherry Ricketts LLP".

Charlotte, North Carolina  
October 20, 2014

## 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, 2014.

### 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 \$330.3 million and reflects a \$12.1 million or 3.8% 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 \$12.1 million increase is attributable to the District's normal operations and includes contributed capital assets from developers of \$1.4 million.
- ▶ Net investment in capital assets decreased by \$15.7 million or 5.4%. 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 May of 2014, the District issued \$26.2 million in new revenue bonds at a premium of \$2.2 million to be used for capital projects.
- ▶ After principal repayments of \$4.4 million, the District has approximately \$106.8 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: ❶ the financial statements and ❷ 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, and the obligations to the District’s employees and creditors (liabilities) and may be used to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing liquidity and financial flexibility.

The Statement of Revenues, Expenses, and Changes in Net Position presents the current year’s results of operations and can be used to determine how successful the District has been in collecting revenues, controlling expenses, and recovering costs through user fees and charges.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and related financing activities, and may be used to determine how cash originated, what that cash was used for, and how these activities resulted in the change to cash balance during the year.

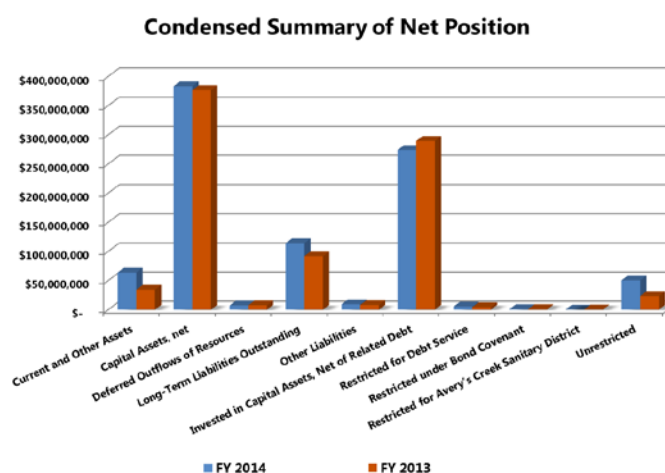
These financial statements should be evaluated with other external factors such as economic conditions, regional employment statistics, and population growth for a more complete analysis of the District’s current and future financial condition.

## Financial Analysis of the District

### A. Net Position

As previously noted, net position may serve over time as one useful indicator of an entity’s financial condition. The District’s assets plus deferred outflows of resources exceeded liabilities by \$330.3 million at June 30, 2014. The largest proportion of the District’s net position, approximately 83%, reflects the District’s net investment in capital assets (e.g. land, buildings, interceptor and collector sewer lines, treatment facilities, equipment, etc.) less any related debt outstanding that was issued to acquire these items.

As these assets are required to provide wastewater collection and treatment services, these resources are not available for future spending. Although the District’s investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources as the capital assets cannot be used to liquidate these liabilities. An additional \$6.2 million or 1.9% 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 \$72,206 of net position restricted for rehabilitation of the Avery’s Creek Sanitary District and \$158 of unexpended bond proceeds, which is restricted for construction of capital projects. The remaining balance of \$50.4 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.





The District's overall financial position improved during the fiscal year ended June 30, 2014 as overall net position grew by 3.8%. 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 Statement of Net Position**

	FY 2014	FY 2013	% Increase (Decrease) 2014 Versus 2013
<b>Current and Other Assets</b>	\$ 63,508,523	\$ 34,188,109	85.76%
Capital Assets, net	<u>382,978,610</u>	<u>376,278,018</u>	1.78%
Total Assets	<u>446,487,133</u>	<u>410,466,127</u>	8.78%
Deferred Outflows of Resources	7,128,413	7,442,967	(4.23%)
<b>Long-Term Liabilities Outstanding</b>	114,017,269	91,716,820	24.31%
Other Liabilities	<u>9,268,079</u>	<u>8,017,847</u>	15.59%
Total Liabilities	<u>123,285,348</u>	<u>99,734,667</u>	23.61%
<b>Net Position:</b>			
Net Investment in Capital Assets	273,702,824	289,369,009	(5.41%)
Restricted for:			
Avery's Creek Sanitary District	72,206	331,146	(78.20%)
Debt Service	5,228,554	4,214,207	24.07%
Capital Projects	158	-	
Bond Covenant	937,730	927,197	1.14%
Unrestricted	<u>50,388,726</u>	<u>23,332,868</u>	115.74%
<b>Total Net Position</b>	<b><u>\$ 330,330,198</u></b>	<b><u>\$ 318,174,427</u></b>	<b>3.82%</b>

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.

<b>Table 2—Condensed Statement of Revenues, Expenses, and Changes in Net Position</b>			
	<b>FY 2014</b>	<b>FY 2013</b>	<b>% Increase (Decrease) 2014 Versus 2013</b>
<b>Operating Revenues:</b>			
Sewer Charges	\$ 30,287,440	\$ 28,268,850	7.14%
Facility and Tap Fees	4,430,475	2,566,635	72.62%
Miscellaneous	<u>728,937</u>	<u>663,003</u>	9.94%
Total Operating Revenues	<u>35,446,852</u>	<u>31,498,488</u>	12.54%
<b>Operating Expenses:</b>			
Salaries and Employee Benefits	7,019,623	6,878,737	2.05%
Contractual Services	1,247,204	1,230,543	1.35%
Utilities	1,059,709	1,013,310	4.58%
Repairs and Maintenance	982,524	971,919	1.09%
Other Supplies and Expenses	1,662,793	1,616,021	2.89%
Insurance Claims and Expenses	2,109,844	1,963,988	7.43%
Depreciation	<u>8,310,114</u>	<u>7,965,835</u>	4.32%
Total Operating Expenses	<u>22,391,811</u>	<u>21,640,353</u>	3.47%
<b>Operating Income</b>	<u>13,055,041</u>	<u>9,858,135</u>	32.43%
<b>Nonoperating Revenues (Expenses):</b>			
Investment Income	175,797	507,644	(65.37%)
Interest Expense	(2,424,335)	(2,780,967)	(12.82%)
Less Capitalized Interest	319,577	648,836	(50.75%)
Bond Issuance Costs	(434,357)	(393,694)	10.33%
Gain (Loss) on Sale of Surplus Property	<u>67,663</u>	<u>14,410</u>	369.56%
Total Nonoperating Revenues (Expenses)	<u>(2,295,655)</u>	<u>(2,003,771)</u>	14.57%
<b>Income before other transactions</b>	10,759,386	7,854,364	36.99%
<b>Capital Contribution</b>	<u>1,396,385</u>	<u>3,217,846</u>	(56.60%)
<b>Change in Net Position</b>	12,155,771	11,072,210	9.79%
<b>Total Net Position, beginning of year</b>			
As previously reported	318,174,427	308,401,298	
Cumulative affect of accounting change	<u>-</u>	<u>(1,299,081)</u>	
As restated	<u>318,174,427</u>	<u>307,102,217</u>	3.61%
<b>Total Net Position, end of year</b>	<u>\$ 330,330,198</u>	<u>\$ 318,174,427</u>	3.82%

The section below discusses significant factors contributing to the District's 3.8% increase in net position from \$318.2 million to \$330.3 million.

### A. Operating Revenues

- ▶ Sewer revenues increased 7.14%. The District had raised domestic sewer rates by 2.5% at the beginning of the fiscal year and experienced a consumption increase during the fiscal year as compared to the wet spring and summer of 2013.
- ▶ Facility and tap fees received increased 72.62% from the previous year reflecting a continued rebound in development in the area.
- ▶ Miscellaneous Income increased 9.94%. This was due to District receiving renewable energy credits associated with the District's hydroelectric facility.

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

- ▲ **Utilities expense**—A decrease in internally generated hydroelectric power due to a repair attributed to the 4.6% increase in the current year expense.
- ▲ **Insurance Claims and Expenses**—The District experienced a 7.4% increase in current year expenses. This is due to the District having more claims in the current year.

**C. Investment income**—In the prior year, the District terminated its Forward Delivery Agreement with Salomon Brothers, a subsidiary of Citigroup, which had generated income in the amount of \$312,000. This attributed to the 65.4% decrease in investment income in the current year.

**D. Interest expense**—Interest expense decreased due to the reduction of outstanding debt throughout the majority of the fiscal year prior to the issuance of new bonds in May of 2014.

**E. Capitalized interest**—Interest capitalized on rehabilitated infrastructure is computed based on construction-in-progress beginning balances plus additions during the year. The beginning balance of construction-in-progress was down 58.7% as compared to FY2013. This attributed to the 50.8% decrease in capitalized interest.

**F. 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

### Capital Assets

The District owns capital assets with a historical cost of \$531,228,418. These assets consist of land (including easements), land 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 \$68.2 million to complete, and at June 30, 2014, was committed to contracts expected to cost \$1.5 million.

Major capital asset transactions during the year include:

- Rehabilitation of over 53,600 feet of sewer line including:
  - ✓ Bradley Branch General Sewer Rehabilitation
  - ✓ Old US 70 at Grovemont General Sewer Rehabilitation
  - ✓ Pipe Rated Project 34012 – Sycamore Terrace
  - ✓ Pipe Rated Project – Contract Seven
  - ✓ Hydro Electric Facility system renovations

**Table 3—Capital Assets**

	FY 2014	FY 2013
Land	\$ 2,515,666	\$ 2,515,666
Easements	7,802,876	7,114,007
Improvements Other than Buildings	5,081,798	5,010,025
Buildings	48,942,433	48,999,611
Machinery and Equipment	65,130,417	65,588,182
Interceptor Sewer Lines	110,867,408	110,841,085
Collector Sewer Lines	281,712,921	272,805,607
Construction in Progress	9,174,899	5,731,142
Subtotal	531,228,418	518,605,325
Less: Accumulated Depreciation	(148,249,808)	(142,327,307)
Net Property, Plant and Equipment	<b>\$ 382,978,610</b>	<b>\$ 376,278,018</b>

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

### Debt Administration

At June 30, 2014, the District had \$106,832,190 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 Aa2 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 2014, Asheville's unemployment rate has been among the lowest compared to the other ten metropolitan areas in North Carolina. As of June 2014, Asheville's unemployment rate was 4.9%. This holds well below the state and national averages of 6.5% and 6.3% respectively. Over the past year, about 1,100 jobs have been added to the economy increasing current employment to 176,500.
- 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 32,000 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.
- ✦ **Consistent tourism destination**—The tourism market experienced a 2.3% increase over the previous year. Evidence of a continued recovering economy having an impact on travel patterns.

- ✦ **Manufacturing employment**—Recent economic indicators suggest job loss in manufacturing has been impacted by the 2008 recession. Industry did experience a nominal increase in the current year. With 19,000 workers, the industry continues to be transformed into a high-skilled sector restructured around an advanced group of machinery, plastics, and electronics manufacturers.
- ✦ **Continued moderate population growth**—Population growth remains a consistent and stable contributor to the local economy. Estimates indicate moderate growth patterns will continue between 1.5% and 2.0% per year. More than 95% of local population growth is from in-migration, with the remaining from births over deaths.
- ✦ **Residential building**—Asheville is a lull in the residential market. Currently, homes sales are down 5.0% with the average price increased over 5.3%. In addition, nearly 688 new residential building permits were issued in 2014. This is a 2.0% decrease over the previous year.
- ✦ **Professional and Business sector**—The confluence of retiring baby boomers, local quality of life, and economic growth has resulted in the emergence of a growing professional and business services sector. This sector 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, 2015 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](mailto:spowell@msdbc.org).

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## Statement of Net Position—June 30, 2014

**Assets:**

## Current assets:

Cash and cash equivalents	\$ 48,418,275
Restricted cash and cash equivalents	7,507,868
Receivables (net):	
Accounts	5,512,822
Sales	313,329
Employee	24,296
Interest	403,756
Inventories	317,497
Prepaid expenses	72,950
Total current assets	<u>62,570,793</u>

## Noncurrent assets:

Restricted cash and cash equivalents	<u>937,730</u>
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## Capital Assets:

Land	2,515,666
Easements	7,802,876
Plant and equipment	511,734,977
Construction in progress	9,174,899
Less: accumulated depreciation	<u>(148,249,808)</u>
Total property and equipment	<u>382,978,610</u>
Total noncurrent assets	<u>383,916,340</u>
Total assets	<u>446,487,133</u>

**Deferred outflows of resources:**

Unamortized bond refunding charges	2,678,592
Accumulated decrease in fair value of hedging derivative	<u>4,449,821</u>
Total deferred outflow of resources	<u>7,128,413</u>

**Liabilities:**

## Current liabilities:

Payments from current assets:	
Accounts payable and accrued expenses	2,778,143
Current portion of compensated absences payable	32,000
Payments from restricted cash and cash equivalents:	
Bond interest payable	1,075,111
Current portion of long term obligations	<u>5,382,825</u>
Total current liabilities	<u>9,268,079</u>

## Noncurrent liabilities:

Compensated absences, net of current portion	727,656
Other post-employment benefits	1,136,400
Derivative liability	4,449,821
Long-term obligations, net of current maturities	<u>107,703,392</u>
Total noncurrent liabilities	<u>114,017,269</u>
Total liabilities	<u>123,285,348</u>

## Net position:

Net investment in capital assets	273,702,824
Restricted for:	
Avery's Creek Sanitary District	72,206
Debt service	5,228,554
Capital projects	158
Bond covenant	937,730
Unrestricted	<u>50,388,726</u>
Total net position	<u>\$ 330,330,198</u>

The accompanying notes are an integral part of financial statements.



## Statement of Revenues, Expenses, and Changes in Net Position For the Year Ended June 30, 2014

### Operating revenues:

Sewer charges	\$ 30,287,440
Facility and tap fees	4,430,475
Miscellaneous	728,937
Total operating revenues	<u>35,446,852</u>

### Operating expenses:

Salaries and employee benefits	7,019,623
Contractual services	1,247,204
Utilities	1,059,709
Repairs and maintenance	982,524
Other supplies and expenses	1,662,793
Insurance claims and expenses	2,109,844
Depreciation	8,310,114
Total operating expenses	<u>22,391,811</u>
Operating income	<u>13,055,041</u>

### Nonoperating revenues (expenses):

Investment income	175,797
Interest expense	(2,104,758)
Bond issuance costs	(434,357)
Gain (Loss) on disposal of surplus property	67,663
Total nonoperating revenues (expenses)	<u>(2,295,655)</u>
Income before contributions	10,759,386

Capital contribution	<u>1,396,385</u>
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Change in net position	12,155,771
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Total Net Position, beginning of year	<u>318,174,427</u>
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Total Net Position, end of year	<u>\$ 330,330,198</u>
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The accompanying notes are an integral part of the financial statements.

## Statement of Cash Flows

### For the Year Ended June 30, 2014

#### Cash flows from operating activities:

Cash received from customers	\$ 34,289,859
Sales tax paid	34,456
Cash paid to employees for services	(5,693,728)
Cash paid for goods and services	(8,327,347)
Other operating revenue	725,895
Net cash provided by operating activities	<u>21,029,135</u>

#### Cash flows from capital and related financing activities:

Acquisition and construction of capital assets	(13,410,429)
Proceeds from sale of surplus property	108,273
Proceeds from long-term obligations	
Principal	26,195,000
Premium	2,234,896
Repayment of long-term obligations	
Principal paid on bond maturities	(4,359,825)
Bond Issuance Cost	(434,357)
Interest paid on bond maturities	(2,671,088)
Net cash used by capital and related financing activities	<u>7,662,470</u>

#### Cash flows from investing activities:

Interest on investments	156,947
Net cash provided by investing activities	<u>156,947</u>

Net increase (decrease) in cash and cash equivalents 28,848,552

Cash and cash equivalents, July 1 28,015,321

Cash and cash equivalents, June 30 \$ 56,863,873

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

Operating income	\$ 13,055,041
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	8,310,114
Changes in assets and liabilities:	
(Increase) in receivables	(396,642)
Decrease in inventory	457
(Increase) in prepaid items	(56,827)
(Decrease) in accounts payable and accrued expenses	(22,395)
Increase in other post-employment benefits	156,800
(Decrease) in accrued compensated absences	(17,413)
Total adjustments	<u>7,974,094</u>

Net cash provided by operating activities \$ 21,029,135

#### Noncash investing, capital, and financing activities:

1. At various times during the year ended June 30, 2014 the District received contribution of sewer lines constructed by developers with a reported estimated fair value of \$1,338,456.
2. During the year ended June 30, 2014, the District received contribution of an easement with a reported estimated fair value of \$57,930.

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

## Notes to Basic Financial Statements

### June 30, 2014

#### 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 22.9 million gallons per day from approximately 53,000 residential and commercial customer accounts transported through approximately 1,000 miles of collector sewers.

The District's basic financial statements include all transactions of the District for which the District is financially accountable. Financial accountability is defined as appointment of a majority of a component unit's board and either the ability to impose the will of the District or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the District. Based on these criteria, the District has determined that there are no component units,

which come under the criteria for inclusion. The District is not a component unit of any other governmental entity.

## **B. Basis of Presentation—Fund Accounting**

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

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

## **C. Measurement Focus and Basis of Accounting**

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

## **D. Budgetary Data**

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

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

## E. Deposits and Investments

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

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

The District's Bond Order limits investments to:

- a. government obligations;
- b. obligations of the following agencies: Federal Financing Bank, Federal Home Loan Banks; Federal Home Loan Mortgage Corporation (except for stripped mortgage securities which are purchased at prices exceeding their principal amounts), The Federal National Mortgage Association (except for stripped mortgage securities which are purchased at prices exceeding their principal amounts), the Government National Mortgage Association, the Federal Housing Administration and the Farmers Home Administration;
- c. direct general obligations of the State secured by the full faith and credit and taxing power of the State rated in one of the two highest rating categories by Moody's and S&P;
- d. bonds and notes of any North Carolina local government or public authority (other than the District), subject to such restrictions as the Secretary of the Local Government Commission may impose, provided such bonds or notes are rated in one of the two highest rating categories by Moody's and S&P;
- e. savings certificates or certificates of deposit issued by any commercial bank or savings and loan association organized under the laws of the State or in any federal bank or savings and loan association having its principal office in the State; provided, however, that any principal amount of such certificates in excess of the amount insured by the federal government or any agency thereof; or by a mutual deposit guaranty association authorized by the Administrator of the Savings Institutions Division of the Department of Commerce of the State, be fully collateralized by obligations reserved by financial institution;
- f. prime quality commercial paper (having original maturities of not more than 270 days) bearing the highest rating of Moody's and S&P and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation;
- g. Participating shares in the cash portfolio of North Carolina Capital Management Trust, provided that the investments of such fund are limited to those qualifying for investment under this definition and that said fund is certified by the Local Government Commission;
- h. A commingled investment pool established and administered by the State Treasurer pursuant to G. S. 147-69.3;

- i. Repurchase agreements with respect to Government Obligations if entered into with certain restrictions;
- j. Any other investment now or hereafter permitted for investment of funds by the District by the General Statutes of North Carolina, including, without limitation, Section 159-30 of the General Statutes of North Carolina.

The District's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a – 7) money market mutual fund, are valued at fair value, 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, 2014, the bond interest payable of \$1,075,111 and the current portion of long-term debt \$5,382,825 represents total restricted liabilities of the District.

#### **G. Allowance for Doubtful Accounts**

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated based on the percentage of receivables that were written off in prior years. The allowance was \$1,031,900 as of June 30, 2014.

#### **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 assets are recorded at the estimated fair market value at the date of donation. 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 and Waste Treatment Plants	50 years
Improvements other than Buildings	10-50 years
Waste Treatment and Pumping Stations Machinery	10-15 years
Interceptor Sewer Lines	50-100 years
Collector Sewer Lines	50-100 years
Office Furniture and Fixtures	10 years
Lab Equipment	5-10 years
Maintenance Equipment	5-10 years
Automobiles and Trucks	5-10 years
Communication Equipment	5-10 years
Computer equipment and software	3-5 years

#### J. Deferred Outflows 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 two items that meet this criterion - unamortized bond refunding charges and accumulated decrease in fair value of hedging derivative.

#### 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, 2014 is \$759,656 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, 2014 amounts to approximately \$2.35 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 future impact on the District, include:

- ▶ **Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*** will be effective for the District's fiscal year beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

It replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

- ▶ **Statement No. 69, *Government Combinations and Disposals of Government Operations*** will be effective for the District's fiscal year beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.



Finally, it requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

- ▶ **Statement No. 71**, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* will be effective for the District’s fiscal year beginning after June 15, 2014. The objective of this Statement is to amend paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

## N. Use of Estimates

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

## O. Operating and Nonoperating Revenues and Expenses

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

## 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, 2014, the District's deposits had a carrying amount of \$13,007,276 and a bank balance of \$13,485,996. Of the bank balance, \$750,000 was covered by federal depository insurance and \$12,735,996 in interest-bearing deposits was covered by collateral held under the pooling method.

At June 30, 2014, the District had \$350 cash on hand.

## B. Investments

As of June 30, 2014, the District had the following investments and maturities.

Investment Type	Fair Value	Less Than 6 Months	6 to 12 Months	1 to 2 Years	3 to 5 Years
NC Capital Management Trust–CASH	\$ 11,753,944	\$ 11,753,944	N/A	N/A	N/A
NC Capital Management Trust–TERM*	<u>32,102,303</u>	<u>32,102,303</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Total</b>	<b><u>\$43,856,247</u></b>	<b><u>\$43,856,247</u></b>	<b><u>N/A</u></b>	<b><u>N/A</u></b>	<b><u>N/A</u></b>

\* Because the NC Capital Management Trust Term Portfolio had a duration of .23 years, it was presented as an investment with a maturity less than 6 months.

- ▶ **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. The District's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AA+ by Standard & Poor's as of June 30, 2014. 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.
- ▶ **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, 2014, 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, 2014, the District had the following hedging derivative instrument:

			Changes in Fair Value				Fair Value - June 30, 2014	
Type	Objective	Notional Amount	Classification	Amount	Effective Date	Maturity Date	Classification	Amount
<b>Cash Flow Hedge:</b>								
<b>Pay-Fixed Interest Rate Swap</b>	Hedge of changes in cash flows on the 2005/2008A Series Revenue Refunding Bonds	\$32,095,000	Deferred Outflow of Resources	\$(43,876)	1/6/2005	7/1/2031	Debt	\$(4,449,821)

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 \$33,915,000 Series 2005 Revenue Refunding Bonds. 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 Revenue Refunding Bonds Series 2008A 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 \$32,095,000 as of June 30, 2014. 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, 2014, 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 A2 by Moody's and A by Standard & Poor's, and Fitch Ratings as of June 30, 2014. 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, 2014 of 3.02%. As of June 30, 2014, the rate on the District's bonds was .05% whereas 59% of one-month LIBOR plus 35 basis points was .4385%. 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 were 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 Debt Obligations

### A. Long-Term Debt

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

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

The District currently has the following issues outstanding:

	<b>Original Issue Amount</b>
<b>Revenue Bonds:</b>	
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
<b>State Revolving Fund:</b>	
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, 2014:

	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2014</b>
<b>Revenue Bonds:</b>				
<b>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:</b>				
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	\$ 651,000	\$ -	\$ 58,000	\$ 593,000
<b>Total Bonds – Enka-Candler Series</b>	<b>\$ 651,000</b>	<b>\$ -</b>	<b>\$ 58,000</b>	<b>\$ 593,000</b>
<b>Revenue Refunding Bonds, Series 2008A issued to refund the Series 2005 Revenue Refunding Bonds:</b>				
Interest at variable rates in the weekly mode, payable monthly, due serially until 2031	\$ 32,925,000	\$ -	\$ 740,000	\$ 32,185,000
<b>Total Bonds – Series 2008A</b>	<b>\$ 32,925,000</b>	<b>\$ -</b>	<b>\$ 740,000</b>	<b>\$ 32,185,000</b>

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
<b>Revenue Bonds, Series 2009A issued to construct certain sewerage projects:</b>				
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	\$ 6,675,000	\$ -	\$ 445,000	\$ 6,230,000
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
<b>Total Bonds - Series 2009A</b>	<b>\$ 15,960,000</b>	<b>\$ -</b>	<b>\$ 445,000</b>	<b>\$ 15,515,000</b>
<b>Revenue Refunding Bonds, Series 2009B issued to refund portions of Series 1999 Bonds:</b>				
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	\$ 4,945,000	\$ -	\$ 3,100,000	\$ 1,845,000
<b>Total Bonds - Series 2009B</b>	<b>\$ 4,945,000</b>	<b>\$ -</b>	<b>\$ 3,100,000</b>	<b>\$ 1,845,000</b>
<b>Revenue Refunding Bonds, Series 2013 issued to refund Series 2003 and Series 2008B Revenue Refunding Bond:</b>				
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	\$ 30,230,000	\$ -	\$ -	\$ 30,230,000
<b>Total Bond - Series 2013</b>	<b>\$ 30,230,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,230,000</b>
<b>Revenue Bonds, Series 2014 issued to construct certain sewerage projects:</b>				
2.0% to 5.00% serial bonds issued May 21, 2014, with maturities on each July 1, 2015 through 2039 varying from \$535,000 to \$1,430,000; interest payable semi-annually	\$ -	\$ 21,510,000	\$ -	\$ 21,510,000
5.00% term bonds issued May 21, 2014, at 112.950%, due July 1, 2039; interest payable semi-annually	\$ -	\$ 4,685,000	\$ -	\$ 4,685,000
<b>Total Bond - Series 2014</b>	<b>\$ -</b>	<b>\$ 26,195,000</b>	<b>\$ -</b>	<b>\$ 26,195,000</b>
<b>Total Revenue Bonds</b>	<b>\$ 84,711,000</b>	<b>\$ 26,195,000</b>	<b>\$ 4,343,000</b>	<b>\$ 106,563,000</b>

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
<b>State Revolving Fund:</b>				
<b>2009 North Carolina Water Pollution Control Revolving Fund used to construct certain sewerage projects:</b>				
\$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	\$ 286,015	\$ -	\$ 16,825	\$ 269,190
<b>Total State Revolving Fund</b>	<b>\$ 286,015</b>	<b>\$ -</b>	<b>\$ 16,825</b>	<b>\$ 269,190</b>
<b>Total Long-Term Obligations</b>	<b>\$ 84,997,015</b>	<b>\$ 26,195,000</b>	<b>\$ 4,359,825</b>	<b>\$ 106,832,190</b>
Plus net unamortized discounts and premiums	<u>4,861,264</u>	<u>2,234,896</u>	<u>842,133</u>	<u>6,254,027</u>
	<b>89,858,279</b>			<b>113,086,217</b>
Series 2008A	740,000			765,000
Series 2009A	445,000			460,000
Series 2009B	3,100,000			-
Series 2013	-			4,080,000
Series 2014	-			-
2009 State Revolving Fund	16,825			16,825
Enka-Candler	<u>58,000</u>			<u>61,000</u>
<b>Less current portion</b>	<u>(4,359,825)</u>			<u>(5,382,825)</u>
	<b>\$ 85,498,454</b>			<b>\$ 107,703,392</b>

Maturities of long-term debt are as follows:

Year Ending June 30:	Serial Maturity	Principal Mandatory Sinking Fund Requirements (Term Bonds)	Total	Interest
2015	\$ 5,382,825	\$ -	\$ 5,382,825	\$ 3,709,202
2016	6,135,825	-	6,135,825	3,945,537
2017	5,275,825	-	5,275,825	3,730,993
2018	4,325,825	-	4,325,825	3,546,688
2019	<u>4,485,825</u>	<u>-</u>	<u>4,485,825</u>	<u>3,375,788</u>
	25,606,125	-	25,606,125	18,308,208
<b>Five Years:</b>				
2024	26,060,121	-	26,060,121	13,847,986
2029	23,544,120	4,065,000	27,609,120	8,574,579
2034	12,361,824	5,220,000	17,581,824	3,749,704
2039	5,290,000	3,045,000	8,335,000	1,295,188
2040	<u>-</u>	<u>1,640,000</u>	<u>1,640,000</u>	<u>41,000</u>
	<b>\$ 92,862,190</b>	<b>\$ 13,970,000</b>	<b>\$ 106,832,190</b>	<b>\$ 45,816,665</b>

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

Interest expense of \$319,577 has been capitalized in the cost of construction for the year ended June 30, 2014. Net interest expense not capitalized in 2014 was \$2,104,758.

## 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 (i) soliciting of purchases of Bonds from qualified investors, (ii) processing and recordkeeping for such purchases, (iii) billing and receiving payment for Bonds purchased, and (iv) determining the interest rate on the Bonds as provided in the Series Resolution.

## C. Hedging Derivative and Associated Hedged Debt

As of June 30, 2014, 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 Swap, Net	Total
	Principal	Interest		
2015	\$ 765,000	\$ 16,093	\$ 958,791	\$ 1,739,884
2016	790,000	15,710	936,002	1,741,712
2017	825,000	15,315	912,468	1,752,783
2018	855,000	14,903	887,891	1,757,794
2019	885,000	14,475	862,421	1,761,896
2020	920,000	14,033	836,056	1,770,089
2021	2,075,000	13,573	808,650	2,897,223
2022	2,160,000	12,535	746,835	2,919,370
2023	2,235,000	11,455	682,489	2,928,944
2024	2,320,000	10,338	615,908	2,946,246



Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate Swap, Net	Total
	Principal	Interest		
2025	2,400,000	9,178	546,795	2,955,973
2026	2,485,000	7,978	475,299	2,968,277
2027	2,585,000	6,735	401,271	2,993,006
2028	2,685,000	5,443	324,264	3,014,707
2029	2,785,000	4,100	244,278	3,033,378
2030	2,890,000	2,708	161,313	3,054,021
2031	1,240,000	1,263	75,220	1,316,483
2032	<u>1,285,000</u>	<u>643</u>	<u>38,280</u>	<u>1,323,923</u>
	<b><u>\$ 32,185,000</u></b>	<b><u>\$ 176,478</u></b>	<b><u>\$ 10,514,231</u></b>	<b><u>\$ 42,875,709</u></b>

The computations above are based on the following interest assumptions.

	Terms	Rates at 6/30/2014
<b>Interest Rate Swap:</b>		
Fixed Payment to Counterparty	Fixed	3.4175%
Variable Payment from Counterparty	59% of LIBOR plus 35 Basis Points	(.4385%)
Net Interest Rate Swap Payments		2.9790%
Variable-rate Bond Coupon Payments	Remarketed Rate	.0500%
Synthetic Interest Rate on Bonds		3.029%

#### D. Compensated Absences

Changes to the liability for compensated absences were as follows:

<b>Balance June 30, 2013</b>	<b>\$ 777,069</b>
Additions	594,514
Withdrawals	<u>(611,927)</u>
<b>Balance June 30, 2014</b>	<b><u>\$ 759,656</u></b>

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, 2014, the District estimates that \$32,000 is the current portion of this liability.

## Note 4—Capital Assets

A summary of changes in capital assets follows below.

	Balance 6/30/13	Additions	Disposals	Transfers	Balance 6/30/14
<b>Capital Assets Not Being Depreciated</b>					
Land	\$ 2,515,666	\$ -	\$ -	\$ -	\$ 2,515,666
Easements	7,114,007	-	-	688,869	7,802,876
Buildings not currently in service	1,159,908	-	-	-	1,159,908
Construction In Progress	5,731,142	13,079,317	-	(9,635,560)	9,174,899
<b>Total Capital Assets Not Being Depreciated</b>	<b>16,520,723</b>	<b>13,079,317</b>	<b>-</b>	<b>(8,946,691)</b>	<b>20,653,349</b>
<b>Capital Assets Being Depreciated</b>					
Buildings & Waste Treatment	47,839,703	-	(57,178)	-	47,782,525
Improvements & Other than Bldgs.	5,010,025	-	-	71,773	5,081,798
Machinery & Equipment	59,403,151	140,480	(1,789,028)	1,087,856	58,842,459
Interceptor Sewer Lines	110,841,085	-	-	26,323	110,867,408
Collector Lines	272,805,607	1,338,455	(191,880)	7,760,739	281,712,921
Automobiles & Trucks	4,345,255	493,064	(308,700)	-	4,529,619
Computer Equipment	1,160,002	-	-	-	1,160,002
Office Furniture & Equipment	679,774	-	(81,437)	-	598,337
<b>Total Capital Assets Being Depreciated</b>	<b>502,084,602</b>	<b>1,971,999</b>	<b>(2,428,223)</b>	<b>8,946,691</b>	<b>510,575,069</b>
<b>Less Accumulated Depreciation</b>					
Bldgs. & Waste Treatment Plants	(19,635,118)	(958,857)	16,568	-	(20,577,407)
Improvements & Other than Bldgs.	(2,993,856)	(287,125)	-	-	(3,280,981)
Machinery & Equipment	(38,562,549)	(1,747,834)	1,789,028	-	(38,521,355)
Interceptor Sewer Lines	(19,420,519)	(1,224,183)	-	-	(20,644,702)
Collector Lines	(57,376,808)	(3,603,044)	191,880	-	(60,787,972)
Automobiles & Trucks	(3,180,073)	(333,001)	308,700	-	(3,204,374)
Computer Equipment	(571,074)	(145,681)	-	-	(716,755)
Office Furniture & Equipment	(587,310)	(10,389)	81,437	-	(516,262)
<b>Total Accumulated Depreciation</b>	<b>(142,327,307)</b>	<b>(8,310,114)</b>	<b>2,387,613</b>	<b>-</b>	<b>(148,249,808)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>359,757,295</b>	<b>(6,338,115)</b>	<b>(40,610)</b>	<b>8,946,691</b>	<b>362,325,261</b>
	<u>\$ 376,278,018</u>	<u>\$ 6,741,202</u>	<u>\$ (40,610)</u>	<u>\$ -</u>	<u>\$ 382,978,610</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, 2014, the District accepted capital assets with an estimated fair market value of \$1,338,455.
- ❑ **Easements**—The District acquires right-of-way easements in the course of sewer line rehabilitation projects. These easements have an indefinite useful life and are recorded at cost. During the year ended June 30, 2014, the District acquired one easement at no cost with an estimated fair market value of \$57,930.

## Note 5—Pension Plan Obligation

### A. North Carolina Local Governmental Employees' Retirement System

- ✓ **Plan Description**—The District contributes to 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 provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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, or by calling (919) 981-5454.
- ✓ **Funding Policy**—Plan members are required to contribute six percent of their annual covered salary. The District is required to contribute at an actuarially determined rate. For the District, the current rate for employees is 7.07% of annual covered payroll. The contribution requirements of members of the District are established and may be amended by the North Carolina General Assembly. The District’s contributions to LGERS for the years ended June 30, 2014, 2013 and 2012 were \$555,233, \$522,094, and \$534,804 respectively. The contributions made by the District equaled the required contributions for each year.

### 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 the Local

Government Employees' Retirement System. 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, 2014, a total of \$283,297 and \$302,991 were contributed by the District and employees, respectively.

### C. Deferred Compensation Plan

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

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

- ✦ **Funding Policy**—Employee contributions are voluntary and must conform to applicable IRS limits. The District has a graduated matching contribution plan as follows: if an employee contributes 1%, 2% or 3%, the District will contribute 2%, 4%, or 5%, respectively, of their salary to either the 401(k) plan described above or the 457 plan. The District Board has the authority to establish and amend contribution requirements. During the year ended June 30, 2014, \$25,328 and \$29,932 were contributed by the District and employees, respectively, to the deferred compensation plan.

## Note 6—Other Employment Benefit

### 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.

## Note 7—Other Post-Employment Benefits

### A. Healthcare Benefits

- **Plan Description**—Under terms of a District resolution, the District administers a single-employer defined benefit group health and dental insurance plan (the GHD Plan). As of May 14, 2008, the plan allow retirees to continue coverage under the Districts' self-insured group health and dental insurance plan until the earlier of 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, 2012, the date of the latest actuarial valuation:

	Employees
Retirees Receiving Benefits	5
Active Plan Members	145
<b>Total</b>	<b>150</b>

- **Funding Policy**—The District pays the full cost of coverage for the healthcare benefits provided to qualified retirees under the plan. The District has chosen to fund the healthcare benefits on a pay as you go basis. Funding for these costs is included in budgeted appropriations in the annual budget. For the current year, the District contributed \$99,000 or 1.4% of annual covered payroll. The current ARC rate is 3.6% of annual covered payroll. The District had four participating retirees who contributed \$25,286.

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

The District's board has agreed to set aside funds on an annual basis equivalent to the annual ARC requirement as determined by the District's actuarial consultants. As of June 30, 2014, the District set aside \$1,231,489. These funds are to be used to meet the District's future post-employment obligation.

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

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

Annual Required Contribution	\$	254,800
Interest on Net OPEB Obligation		39,200
Adjustment to Annual Required Contribution		<u>(38,200)</u>
Annual OPEB Cost (Expense)		255,800
Contributions Made		<u>(99,000)</u>
Increase (Decrease) in Net OPEB Obligation		156,800
Net OPEB Obligation, beginning of year		<u>979,600</u>
NET OPEB Obligation, end of year	<b>\$</b>	<b><u>1,136,400</u></b>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2009 through 2014 were as follows:

For the Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 212,000	0.0%	\$ 212,000
2010	221,400	3.5%	425,700
2011	200,600	9.3%	607,700
2012	212,100	7.6%	803,700
2013	244,200	28.0%	979,600
2014	255,800	38.7%	1,136,400

- **Funded Status and Funding Progress**—As of July 1, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$2,403,700. The covered payroll (annual

payroll of active employees covered by the plan) was \$7,407,000 and the ratio of the UAAL to the covered payroll was 32.6%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the July 1, 2012 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.0% to 5.0% annually. The investment rate included a 3.0% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2012 was 30 years.

## Note 8—Risk Management

The District has established a self-insured group health and dental insurance program, which provides medical coverage up to a maximum of \$60,000 per employee, and approximately \$1,000,000 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 \$101,766 reported at June 30, 2014 represents estimated claims liabilities, including incurred but not reported losses, at the estimated ultimate cost of settling the claims using historical experience as determined by the Third-Party Administrator (TPA).

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

<b>Fiscal Year Ending June 30</b>	<b>Beginning of Fiscal Year Liability</b>	<b>Current Year Claims &amp; Changes in Estimates</b>	<b>Claim Payments</b>	<b>Balances at Fiscal Year End</b>
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

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

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



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

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

## Note 9—Construction in Progress and Future Expansion Plans

During the year ended June 30, 2002, consulting engineers finalized a comprehensive twenty-year Wastewater System Master Plan to guide the District in reducing sanitary sewer overflows (SSOs) as well as keeping up with the maintenance and management of its infrastructure. The plan estimated that the District would need to spend approximately \$257 million over a twenty-year period. Portions of this Master Plan are periodically updated as required to meet the needs identified by engineering staff for the Water Reclamation Facility and the collector and interceptor sewer lines. The District uses these plans, along with other resources including representatives from the member agencies, to develop a ten-year Capital Improvement Plan projected to spend an average of \$18.6 million annually. The District expects to fund these costs out of user charges along with the issuance of additional bonds.

As of June 30, 2014, the District had begun sewer projects expected to incur future costs of approximately \$68.2 million, and the District is committed under various contracts encumbered for sewer construction and rehabilitation estimated to cost \$1.5 million to complete. The majority of encumbered contracts are expected to be completed within the next fiscal year, and the projects currently under construction are scheduled to be completed within the next two to five years.

## Note 10—Bond Covenants

The District is subject to the 1999 Amended Bond Order, which contains several operational directives including internal accounting fund structure, disclosure of financial records, and setting rates. The District was in compliance with all requirements of the Bond Order during the year ended June 30, 2014. 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, 2014, the Long-Term Debt Service Requirement equaled principal and interest due on January 1, 2013 and July 1, 2013.

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	\$ 35,446,852
Interest and Non-Operating Revenues	243,460
Adjustments to Revenues:	
Interest Income allocable to Non-Operating Funds	(48,086)
Facility, Tap, and Other Fees	(4,478,080)
(Gain) on Disposal of Property	<u>(67,663)</u>
Adjusted Revenues	<u>31,096,483</u>
Less: Operating Expenses	(22,391,811)
Add back Depreciation	<u>8,310,114</u>
Adjusted Current Expenditures	<u>(14,081,697)</u>
Income Available for Debt Service	<u>\$ 17,014,786</u>
Long-Term Debt Service Requirement	8,408,166
Minimum Required Percentage	<u>120%</u>
Minimum Required Income	<u>\$ 10,089,799</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 202%.

## Note 11—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 Progress Energy. During the year ended June 30, 2014, 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 \$537,000 if purchased. This is considerably lower than in prior years due to rainfall that was significantly below average levels.

## Note 12—Operating Leases

### A. Rental Income

The District has entered into a cancelable agreement expiring in 2016 with an optional two-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 \$60,000, 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 2015 with an optional two-year renewal, with Buncombe County Partnership for Children to lease the old Administration Building at an annual rent of \$52,182.

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 \$19,044 annually until the next scheduled increase in 2015.

Following are the carrying values of leased assets, along with current year depreciation and total accumulated depreciation at June 30, 2014. 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 <sup>(estimate)</sup>	\$ 426,000	\$ 305,504	\$ 120,496
Laboratory Equipment	14,251	-	14,251
Old Administration Building	467,008	174,292	292,716
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, 2014 totaled \$26,945.

Future minimum lease payments are as follows:

Year Ended June 30	Amount
2015	\$ 26,821
2016	21,510
2017	14,691
2018	13,810
2019	<u>3,289</u>
<b>Total</b>	<b><u>\$ 80,121</u></b>

## Note 13—Claims and Judgments

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

## Note 14—Subsequent Events

On May 13, 2013, House Bill 488, Session Law 2013-50 ("HB488") became law in North Carolina, having been adopted by both houses of the North Carolina General Assembly, duly ratified and not vetoed by the Governor of the State of North Carolina.

Section 1 of HB488 provides for the transfer by operation of law to the District of all assets and outstanding debts of ❶ the Cane Creek Water and Sewer District in Henderson County, North Carolina and ❷ the water system (the "Asheville Water System") operated by the City of Asheville, North Carolina ("Asheville"). In addition, Section 1 of HB488 provides that all of the assets and outstanding debt of the District are by operation of law transferred to, and will be operated as, a new Metropolitan Water and Sewerage District, which also is established by operation of law pursuant to Section 1 of HB488. The effective date of HB488 is May 15, 2013.

On May 14, 2013, Asheville brought an action in the Superior Court Division of the General Court of Justice, Wake County, North Carolina (the "Court") challenging the constitutionality of Section 1 of HB488 under the Constitution of the State of North Carolina and the Constitution of the United States, seeking the entry of a temporary restraining order and requesting a hearing on a motion for a preliminary injunction. The State of North Carolina and the District were named as defendants in this action.

On May 14, 2013, after a hearing, the Court issued a temporary restraining order, until further order of the Court or the expiration of 10 days, which temporary restraining order ❶ restrains and enjoins the State of North Carolina from taking any action to implement or enforce Section 1 of HB488, ❷ prohibits the District from assuming any authority or control over the Asheville Water System and ❸ permits Asheville to continue to own, manage and operate the Asheville Water System pending further order of the Court. The District did not oppose the entry of the temporary restraining order. A hearing on Asheville's motion for a preliminary injunction was scheduled by the Court for May 20, 2013.

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

At the request of Judge Manning, the parties entered into a Stipulated Case Management Order (the "Case Management Order"). The Case Management Order (i) continued the Temporary Restraining Order in effect; (ii) allowed the parties 120 days from September 30, 2013 to conduct any necessary discovery; (iii) provided for the filing of dispositive motions within thirty days after the close of discovery (or sooner by agreement of the parties) and (iv) the scheduling of a single hearing date for all dispositive motions.

Oral Argument took place on May 23, 2014 in Wake County Superior Court before Judge Manning. On June 9, 2014, Judge Manning issued a *Memorandum of Decision and Order RE: Summary Judgment*. In the

Decision, Judge Manning ruled that HB 488 violates Article II, Section 24 of the North Carolina Constitution (prohibiting local acts relating to health and sanitation), Article I, Section 19 of the N.C. Constitution (prohibiting the taking of a proprietary asset with no rational basis), and Article I, Sections 19 and 35 of the N.C. Constitution (because the taking results in no change in use and is not a valid exercise of the legislative power to condemn). Judge Manning ruled further, if it were determined that HB 488 was a valid exercise of the sovereign power of the State of North Carolina, then the City of Asheville would be entitled to just compensation for its water system.

The State of North Carolina filed Notice of Appeal from Judge Manning's *Memorandum of Decision and Order RE: Summary Judgment* to the North Carolina Court of Appeals on July 8, 2014. Allowing time for preparation of the Record on Appeal and briefing of the issues, it is anticipated the North Carolina Court of Appeals may issue a decision in the case in the first half of 2015.

# **Required Supplemental Information**

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	% of Covered Payroll ((b-a)/c)
7/1/2008	\$ -	\$ 1,801,000	\$ 1,801,000	0.0%	\$ 6,532,000	27.6%
7/1/2010	-	1,678,300	1,678,300	0.0%	7,147,000	23.5%
7/1/2012	-	2,403,700	2,403,700	0.0%	7,407,000	32.6%

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

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

### Notes to the Required Schedules

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

Additional information as of the latest actuarial valuation follows:

<b>Valuation Date</b>	
• 7/1/2012	
<b>Actuarial Cost Method</b>	
• Entry Age Normal	
<b>Amortization Method</b>	
• Level percentage of pay, open	
<b>Remaining Amortization Period</b>	
• 30 Years	
<b>Actuarial Assumptions</b>	
• Investment Rate of Return	- 4.00%
• Inflation Assumption	- 3.00%
• Healthcare Cost Trend Rate	- 10.00% initial, 5.00% ultimate



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# **Supplemental Financial Data**

## Comparative Statement of Net Position

### June 30, 2014 and 2013

	2014	2013
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 48,418,275	\$ 21,792,364
Restricted cash and cash equivalents	7,507,868	5,295,760
Receivables (net):		
Accounts	5,512,822	5,083,897
Sales	313,329	347,785
Employee	24,296	21,254
Grant	-	869
Interest	403,756	384,906
Inventories	317,497	317,954
Prepaid expenses	72,950	16,123
Total current assets	<u>62,570,793</u>	<u>33,260,912</u>
Noncurrent assets:		
Restricted cash and cash equivalents	<u>937,730</u>	<u>927,197</u>
Capital Assets:		
Land	2,515,666	2,515,666
Easements	7,802,876	7,114,007
Plant and equipment	511,734,977	503,244,510
Construction in progress	9,174,899	5,731,142
Less: accumulated depreciation	<u>(148,249,808)</u>	<u>(142,327,307)</u>
Total property and equipment	<u>382,978,610</u>	<u>376,278,018</u>
Total noncurrent assets	<u>383,916,340</u>	<u>377,205,215</u>
Total assets	<u>446,487,133</u>	<u>410,466,127</u>
<b>Deferred outflows of resources:</b>		
Unamortized bond refunding charges	2,678,592	2,949,270
Accumulated decrease in fair value of hedging derivative	<u>4,449,821</u>	<u>4,493,697</u>
Total deferred outflow of resources	<u>7,128,413</u>	<u>7,442,967</u>
<b>Liabilities and Net Position:</b>		
Current liabilities:		
Payments from current assets:		
Accounts payable and accrued expenses	2,778,143	2,875,615
Current portion of compensated absences payable	32,000	32,000
Payments from restricted cash and cash equivalents:		
Bond interest payable	1,075,111	750,407
Current portion of long term debt	<u>5,382,825</u>	<u>4,359,825</u>
Total current liabilities	<u>9,268,079</u>	<u>8,017,847</u>
Noncurrent liabilities:		
Compensated absences, net of current portion	727,656	745,069
Other post-employment benefit	1,136,400	979,600
Derivative liability	4,449,821	4,493,697
Bonds payable, net of current maturities	<u>107,703,392</u>	<u>85,498,454</u>
Total noncurrent liabilities	<u>114,017,269</u>	<u>91,716,820</u>
Total liabilities	<u>123,285,348</u>	<u>99,734,667</u>
Net position:		
Net investment in capital assets	273,702,824	289,369,009
Restricted for:		
Avery's Creek Sanitary District	72,206	331,146
Debt service	5,228,554	4,214,207
Capital projects	158	-
Bond covenant	937,730	927,197
Unrestricted	<u>50,388,726</u>	<u>23,332,868</u>
Total net position	<u>\$ 330,330,198</u>	<u>\$ 318,174,427</u>

## Comparative Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Operating revenues:</b>		
Sewer charges	\$ 30,287,440	\$ 28,268,850
Facility and tap fees	4,430,475	2,566,635
Miscellaneous	728,937	663,003
Total operating revenues	<u>35,446,852</u>	<u>31,498,488</u>
<b>Operating expenses:</b>		
Salaries and employee benefits	7,019,623	6,878,737
Contractual services	1,247,204	1,230,543
Utilities	1,059,709	1,013,310
Repairs and maintenance	982,524	971,919
Other supplies and expenses	1,662,793	1,616,021
Insurance claims and expenses	2,109,844	1,963,988
Depreciation	8,310,114	7,965,835
Total operating expenses	<u>22,391,811</u>	<u>21,640,353</u>
Operating income	<u>13,055,041</u>	<u>9,858,135</u>
<b>Nonoperating revenues (expenses):</b>		
Investment income	175,797	507,644
Interest expense	(2,104,758)	(2,132,131)
Bond issuance costs	(434,357)	(393,694)
Gain (Loss) on disposal of surplus property	67,663	14,410
Total nonoperating expenses	<u>(2,295,655)</u>	<u>(2,003,771)</u>
Income before contributions	10,759,386	7,854,364
Capital contribution	<u>1,396,385</u>	<u>3,217,846</u>
Change in net position	12,155,771	11,072,210
Total Net Position, beginning of year		
As previously reported	318,174,427	308,401,298
Cumulative affect of accounting change	-	(1,299,081)
As restated	<u>330,330,198</u>	<u>307,102,217</u>
Total Net Position, end of year	<u>\$ 330,330,198</u>	<u>\$ 318,174,427</u>

## Schedule of Revenues and Expenditures – Budget to Actual (NON-GAAP) For the Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues:</b>			
Operating revenues:			
Sewer charges (net):			
Domestic users	\$ 27,367,458	\$ 27,926,689	\$ 559,231
Industrial users	1,710,390	1,758,818	48,428
Billings and collections	689,062	717,413	28,351
	<u>29,766,910</u>	<u>30,402,920</u>	<u>636,009</u>
Facility and tap fees	1,355,000	4,430,475	3,075,475
City of Asheville(Enka Bonds)	37,000	37,126	126
Rental Income	68,597	71,081	2,484
Miscellaneous	469,276	620,730	151,454
Total operating revenues	<u>31,696,783</u>	<u>35,562,332</u>	<u>3,865,549</u>
Nonoperating revenues:			
Investment income	350,120	175,797	(174,323)
Total nonoperating revenues	<u>350,120</u>	<u>175,797</u>	<u>(174,323)</u>
Total revenues	<u>32,046,903</u>	<u>35,738,129</u>	<u>3,691,226</u>
<b>Expenses:</b>			
Operating expenses:			
Salaries and employee benefits		6,921,839	
Contractual services		1,247,204	
Utilities		1,059,709	
Repairs and maintenance		982,524	
Other supplies and expenses		1,662,793	
Insurance claims and expenses		2,109,844	
Total operating expenses	<u>14,674,435</u>	<u>13,983,913</u>	<u>690,522</u>
Capital Projects:			
Equipment		633,543	
Infrastructure		12,701,810	
Total capital projects	<u>17,670,827</u>	<u>13,335,353</u>	<u>4,335,474</u>
Debt service			
Principal		5,382,825	
Interest		2,671,087	
Total debt service	<u>8,502,191</u>	<u>8,053,912</u>	<u>448,279</u>
Total Expenses	<u>40,847,453</u>	<u>35,373,178</u>	<u>5,474,275</u>
Revenues over (under) expenses	<u>(8,800,550)</u>	<u>364,951</u>	<u>9,165,501</u>
Other Financing Sources:			
Proceeds from long-term obligations	28,000,000	28,429,896	429,896
Use of available funds	(19,199,450)		19,199,450
	<u>8,800,550</u>	<u>28,429,896</u>	<u>19,199,450</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 28,794,847</u>	<u>\$ 28,364,951</u>

## Schedule of Revenues and Expenditures – Budget to Actual (NON-GAAP) For the Year Ended June 30, 2014

(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>\$ 28,794,847</u>
Reconciling items:	
Interest expense capitalized	319,577
Change in accrued interest expense	(324,704)
Unamortized discount recognized in interest expense	571,456
Debt principal payments	5,382,825
Capital project transfers	13,335,353
Change in allowance for doubtful accounts	(115,480)
Change in compensated absences	17,413
Change in health insurance IBNR	41,603
Change in other post-employment insurance OPEB	(156,800)
Contributed assets	1,396,385
Avery's Creek assets contributed by Buncombe County	
Bond issuance cost	(434,357)
Depreciation	(8,310,114)
Proceeds from long-term obligations	(28,429,896)
Gain (Loss) on disposal of surplus property	<u>67,663</u>
Total reconciling items	<u>(16,639,076)</u>
Change in net position	<u>\$ 12,155,771</u>

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

### June 30, 2014

	<u>Enterprise Account</u>	<u>Capital Reserve Account</u>	<u>Bond Service Account</u>
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 20,464,476	\$ -	\$ -
Restricted cash and cash equivalents	-	-	6,303,665
Receivables (net):			
Accounts	5,512,822	-	-
Sales Tax	194,567	-	-
Employee	24,296	-	-
Interest	-	-	-
Inventories	317,497	-	-
Prepaid expenses	72,950	-	-
Total current assets	<u>26,586,608</u>	<u>-</u>	<u>6,303,665</u>
Noncurrent assets:			
Restricted cash and cash equivalents	<u>-</u>	<u>937,730</u>	<u>-</u>
Capital Assets:			
Land	-	-	-
Easements	-	-	-
Plant and equipment	-	-	-
Construction in progress	-	-	-
Less accumulated depreciation	<u>-</u>	<u>-</u>	<u>-</u>
Total property and equipment	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>-</u>	<u>937,730</u>	<u>-</u>
Total assets	<u>26,586,608</u>	<u>937,730</u>	<u>6,303,665</u>
<b>Deferred outflow of resources:</b>			
Unamortized bond refunding charges	-	-	-
Accumulated decrease in fair value of hedging derivative	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred outflow of resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities and Net Position:</b>			
Current liabilities:			
Payments from current assets:			
Accounts payable and accrued expenses	1,078,111	-	-
Current portion of compensated absences payable	32,000	-	-
Payments from restricted cash and cash equivalents:			
Bond interest payable	-	-	1,075,111
Current portion of long-term obligation	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>1,110,111</u>	<u>-</u>	<u>1,075,111</u>
Noncurrent liabilities:			
Compensated absences, net of current portion	727,656	-	-
Other post-employment benefits	1,136,400	-	-
Derivative Liability	-	-	-
Long-term obligations, net of current maturities	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>1,864,056</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>2,974,167</u>	<u>-</u>	<u>1,075,111</u>
<b>Net position:</b>			
Net position	<u>\$ 23,612,441</u>	<u>\$ 937,730</u>	<u>\$ 5,228,554</u>

Combining Schedule of Net Position, All Funds (Non-GAAP)  
June 30, 2014

(continued)

Debt Service Reserve Account	Construction Account	General Account	Capital Account	Total
\$ -	\$ 24,382,873	\$ 3,113,183	\$ 457,743	\$ 48,418,275
-	1,131,997	72,206	-	7,507,868
-	-	-	-	5,512,822
-	111,285	-	7,477	313,329
-	-	-	-	24,296
-	-	403,756	-	403,756
-	-	-	-	317,497
-	-	-	-	72,950
-	25,626,155	3,589,145	465,220	62,570,793
-	-	-	-	937,730
-	-	-	2,515,666	2,515,666
-	-	-	7,802,876	7,802,876
-	-	-	511,734,977	511,734,977
-	-	-	9,174,899	9,174,899
-	-	-	(148,249,808)	(148,249,808)
-	-	-	382,978,610	382,978,610
-	-	-	382,978,610	383,916,340
-	25,626,155	3,589,145	383,443,830	446,487,133
-	-	-	2,678,592	2,678,592
-	-	-	4,449,821	4,449,821
\$ -	\$ -	\$ -	\$ 7,128,413	\$ 7,128,413
-	1,690,104	120	9,808	2,778,143
-	-	-	-	32,000
-	-	-	-	1,075,111
-	-	-	5,382,825	5,382,825
-	1,690,104	120	5,392,633	9,268,079
-	-	-	-	727,656
-	-	-	-	1,136,400
-	-	-	4,449,821	4,449,821
-	-	-	107,703,392	107,703,392
-	-	-	112,153,213	114,017,269
-	1,690,104	120	117,545,846	123,285,348
\$ -	\$ 23,936,051	\$ 3,589,025	\$ 273,026,397	\$ 330,330,198



## Combining Schedule of Revenues, Expenses, and Changes in Net Position, All Funds (Non-GAAP) For the Year Ended June 30, 2014

	Enterprise Account	Capital Reserve Account	Bond Service Account	Debt Service Reserve Account
<b>Operating revenues:</b>				
Sewer charges (refunds)	\$ 30,287,440	\$ -	\$ -	\$ -
Facility and tap fees	-	-	-	-
Miscellaneous	681,332	-	-	-
Total operating revenues	<u>30,968,772</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Operating expenses:</b>				
Operations	13,898,351	-	-	-
Depreciation	-	-	-	-
Total operating expenses	<u>13,898,351</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating income (loss)	<u>17,070,421</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Nonoperating revenues (expenses):</b>				
Investment income	127,711	10,533	19,089	-
Interest expense	-	-	(2,424,335)	-
Less capitalized interest	-	-	319,577	-
Bond issuance costs	-	-	-	-
Gain (Loss) on disposal of surplus property	108,273	-	-	-
Miscellaneous expense	-	-	-	-
Total nonoperating revenues (expenses)	<u>235,984</u>	<u>10,533</u>	<u>(2,085,669)</u>	<u>-</u>
Income (loss) before other transactions	<u>17,306,405</u>	<u>10,533</u>	<u>(2,085,669)</u>	<u>-</u>
Capital contribution	-	-	-	-
Special item - Avery's Creek Sanitary District asset contribution from Buncombe County	-	-	-	-
Operating transfers	(15,348,308)	-	7,779,418	-
Purchase of and transfer capital assets	(633,543)	-	(319,577)	-
Payment of debt:				
Principal	-	-	(4,359,825)	-
Change in net position	<u>1,324,554</u>	<u>10,533</u>	<u>1,014,347</u>	<u>-</u>
Total Net Position, beginning of year	<u>22,287,887</u>	<u>927,197</u>	<u>4,214,207</u>	<u>-</u>
Total Net Position, end of year	<u>\$ 23,612,441</u>	<u>\$ 937,730</u>	<u>\$ 5,228,554</u>	<u>\$ -</u>

## Combining Schedule of Revenues, Expenses, and Changes in Net Position, All Funds (Non-GAAP) For the Year Ended June 30, 2014

(continued)

Construction Account	General Account	Capital Account	Total
\$ -	\$ -	\$ -	\$ 30,287,440
-	4,430,475	-	4,430,475
-	47,605	-	728,937
-	4,478,080	-	35,446,852
-	-	183,346	14,081,697
-	-	8,310,114	8,310,114
-	-	8,493,460	22,391,811
-	4,478,080	(8,493,460)	13,055,041
4,501	10,725	3,238	175,797
-	-	-	(2,424,335)
-	-	-	319,577
-	-	(434,357)	(434,357)
-	-	(40,610)	67,663
-	-	-	-
4,501	10,725	(471,729)	(2,295,655)
4,501	4,488,805	(8,965,189)	10,759,386
-	1,396,385	-	1,396,385
-	-	-	-
36,493,057	(1,600,084)	(27,324,083)	-
(12,701,810)	(1,396,385)	15,051,315	-
-	-	4,359,825	-
23,795,748	2,888,721	(16,878,132)	12,155,771
140,303	700,304	289,904,529	318,174,427
\$ 23,936,051	\$ 3,589,025	\$ 273,026,397	\$ 330,330,198

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# 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**

## 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.

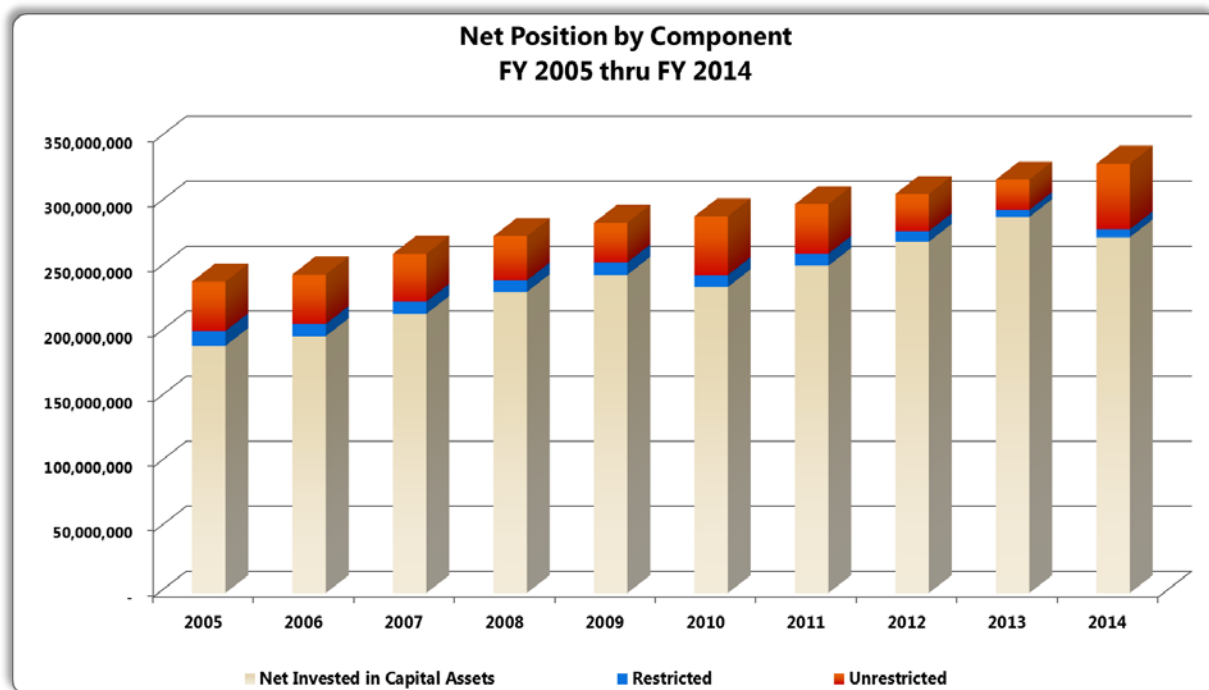
- **Employees by Division**
- **Operating Indicators by Division**

**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 2005 to FY 2014

Fiscal Year Ended June 30	Net Invested in Capital Assets	Restricted	Unrestricted	Total Net Position
2005	190,156,068	11,404,911	38,055,205	239,616,184
2006	197,656,088	9,446,269	38,041,095	245,143,452
2007	214,808,683	9,447,494	36,699,672	260,955,849
2008	231,678,011	8,886,108	33,968,233	274,532,352
2009	244,875,790	9,493,497	30,570,139	284,939,426
2010	235,471,938	9,248,713	45,195,178	289,915,829
2011	251,754,578	9,294,955	38,170,812	299,220,345
2012	270,297,021	8,117,494	28,687,702	307,102,217
2013	289,369,009	5,472,550	23,332,868	318,174,427
2014	273,702,824	6,238,648	50,388,726	330,330,198



Changes in Net Position (Accrual Basis of Accounting)

FY 2005 to FY 2014

	FISCAL YEAR										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
<b>Operating revenues:</b>											
Sewer charges	\$ 22,169,581	\$ 22,980,969	\$ 24,771,102	\$ 24,895,694	\$ 24,290,719	\$ 25,369,818	\$ 26,894,894	\$ 27,849,176	\$ 28,268,850	\$ 30,287,440	
Facility and tap fees	1,769,620	2,481,850	3,054,950	3,005,184	2,959,115	1,654,010	2,238,171	2,321,474	2,566,635	4,430,475	
Miscellaneous	1,091,124	525,392	1,194,643	702,777	509,239	770,389	612,721	907,987	663,003	728,937	
Total operating revenues	25,030,325	25,988,211	29,020,695	28,603,655	27,759,073	27,794,217	29,745,786	31,078,637	31,498,488	35,446,852	
<b>Operating expenses:</b>											
Salaries & employee benefits	5,400,871	5,637,905	5,372,585	5,717,428	6,181,775	6,303,951	6,536,352	6,663,907	6,878,737	7,019,623	
Contractual services	1,041,397	1,062,093	1,194,932	1,167,260	1,387,098	1,240,175	1,337,258	1,452,459	1,230,543	1,247,204	
Utilities	943,951	1,319,915	1,384,603	1,265,901	1,298,053	1,111,644	1,234,810	1,106,158	1,013,310	1,059,709	
Repairs and maintenance	907,881	888,423	945,091	877,634	877,124	851,966	927,655	958,738	971,919	982,524	
Other supplies and expenses	1,225,679	1,233,017	1,320,107	1,288,061	1,337,610	1,468,655	1,344,307	1,545,557	1,616,021	1,662,793	
Insurance claims and expenses	1,649,369	1,712,310	1,759,923	1,753,911	1,726,689	1,778,336	2,142,086	2,255,450	1,963,988	2,109,844	
Depreciation	7,319,331	7,700,136	7,806,535	7,065,752	8,520,993	8,556,365	7,520,744	7,681,340	7,965,835	8,310,114	
Total operating expenses	18,488,479	19,553,799	19,783,776	19,135,947	21,329,342	21,311,092	21,043,212	21,663,609	21,640,353	22,391,811	
<b>Operating income</b>	6,541,846	6,434,412	9,236,919	9,467,708	6,429,731	6,483,125	8,702,574	9,415,028	9,858,135	13,055,041	
<b>Nonoperating revenues (expenses):</b>											
Interest income	1,284,644	1,922,002	2,190,254	1,742,108	1,047,587	578,302	493,002	311,807	507,644	175,797	
Interest expense	(3,482,174)	(4,152,308)	(3,924,737)	(3,736,405)	(3,203,405)	(2,894,980)	(2,619,031)	(2,534,946)	(2,132,131)	(2,104,758)	
Amortization of bond issuance costs	(67,760)	(81,306)	(80,684)	(91,286)	(73,887)	(145,827)	(156,120)	(144,651)	-	-	
Bond issuance costs	-	-	-	-	-	-	-	-	(393,694)	(434,357)	
Gain (loss) on sale of surplus property	60,985	(101,491)	(13,698)	(49,926)	22,150	67,099	42,232	86,165	14,410	67,663	
Total nonoperating revenues (expenses)	(2,204,305)	(2,413,103)	(1,828,865)	(2,135,509)	(2,207,555)	(2,435,406)	(2,239,917)	(2,281,625)	(2,003,771)	(2,295,655)	
Income before contributions & special items	4,337,541	4,021,309	7,408,054	7,332,199	4,222,176	4,047,719	6,462,657	7,133,403	7,854,364	10,759,386	
Capital contribution	3,053,623	4,184,135	8,404,343	6,244,304	5,856,798	1,128,684	2,841,859	2,047,550	3,217,846	1,396,385	
Special items	-	(2,678,176)	-	-	-	-	-	-	-	-	
<b>Change in Net Position</b>	\$ 7,391,164	\$ 5,527,268	\$ 15,812,397	\$ 13,576,503	\$ 10,078,974	\$ 5,176,403	\$ 9,304,516	\$ 9,180,953	\$ 11,072,210	\$ 12,155,771	

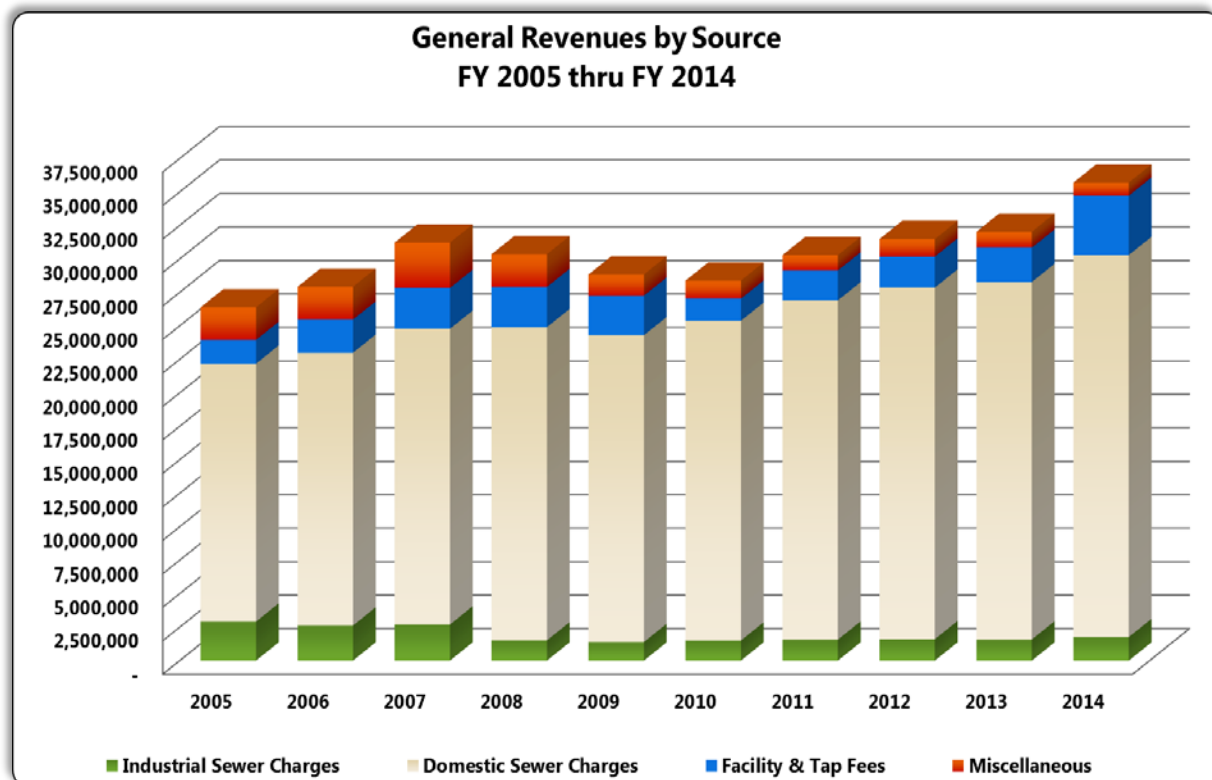


General Revenues by Source

FY 2005 to FY 2014

Fiscal Year Ended June 30	Industrial Sewer Charges	Domestic Sewer Charges	Facility & Tap Fees	Miscellaneous	Total
2005	2,912,188	19,257,393	1,769,620	2,436,753	26,375,954
2006	2,617,298	20,363,671	2,481,850	2,447,394	27,910,213
2007	2,693,328	22,077,774	3,054,950	3,384,897	31,210,949
2008	1,510,669	23,385,025	3,005,184	2,444,885	30,345,763
2009	1,386,132	22,904,587	2,959,115	1,578,976	28,828,810
2010	1,498,529	23,871,289	1,654,010	1,348,691	28,372,519
2011	1,565,402	25,329,492	2,238,171	1,147,955	30,281,020
2012	1,599,819	26,249,357	2,321,474	1,305,959	31,476,609
2013	1,577,916	26,690,934	2,566,635	1,185,057	32,020,542
2014	1,758,818	28,528,622	4,430,475	972,397	35,690,312

**Note:** Does not include Capital Contributions



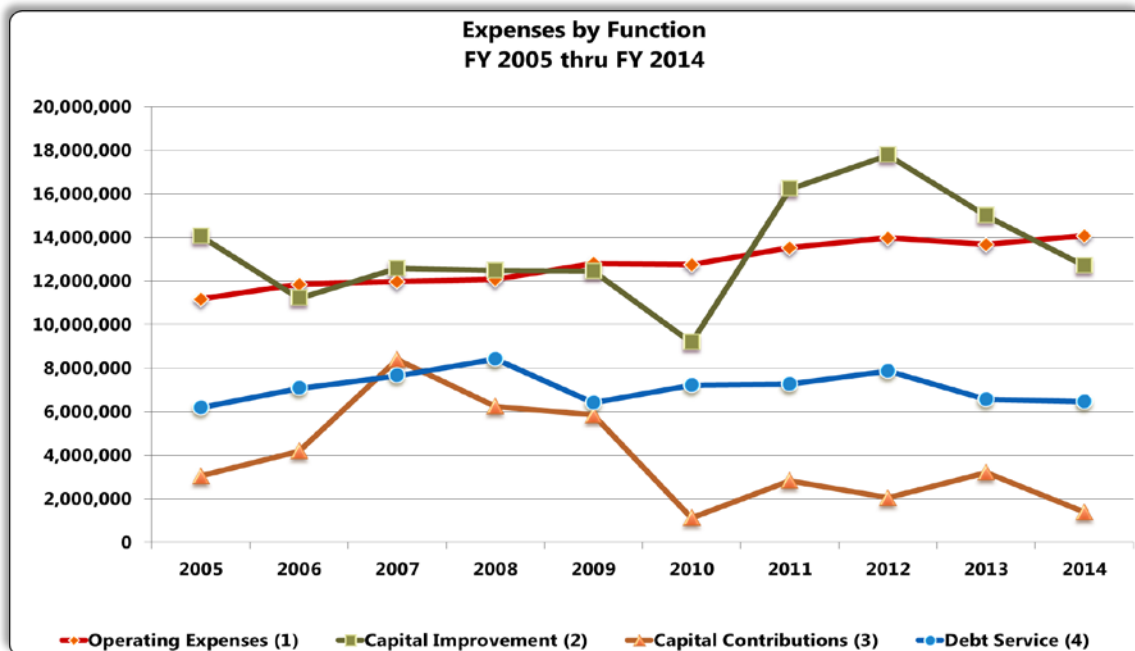
Expenses by Function (Non-GAAP)

FY 2005 to FY 2014

Fiscal Year Ended June 30	Operating Expenses <sup>(1)</sup>	Capital Improvement <sup>(2)</sup>	Capital Contributions <sup>(3)</sup>	Debt Service <sup>(4)</sup>	Total
2005	11,169,148	14,055,591	3,053,623	6,179,174	34,457,536
2006	11,853,663	11,213,052	4,184,135	7,071,308	34,322,158
2007	11,977,241	12,574,902	8,404,343	7,650,737	40,607,223
2008	12,070,195	12,471,794	6,244,304	8,419,405	39,205,698
2009	12,808,349	12,447,791	5,856,798	6,413,405	37,526,343
2010	12,754,727	9,173,231	1,128,684	7,212,980	30,269,622
2011	13,522,468	16,226,145	2,841,859	7,255,856	39,846,328
2012	13,982,269	17,775,391	2,047,550	7,859,771	41,664,981
2013	13,674,518	14,988,922	3,217,846	6,553,956	38,435,242
2014	14,081,697	12,701,810	1,396,385	6,464,583	34,644,475

Note:

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

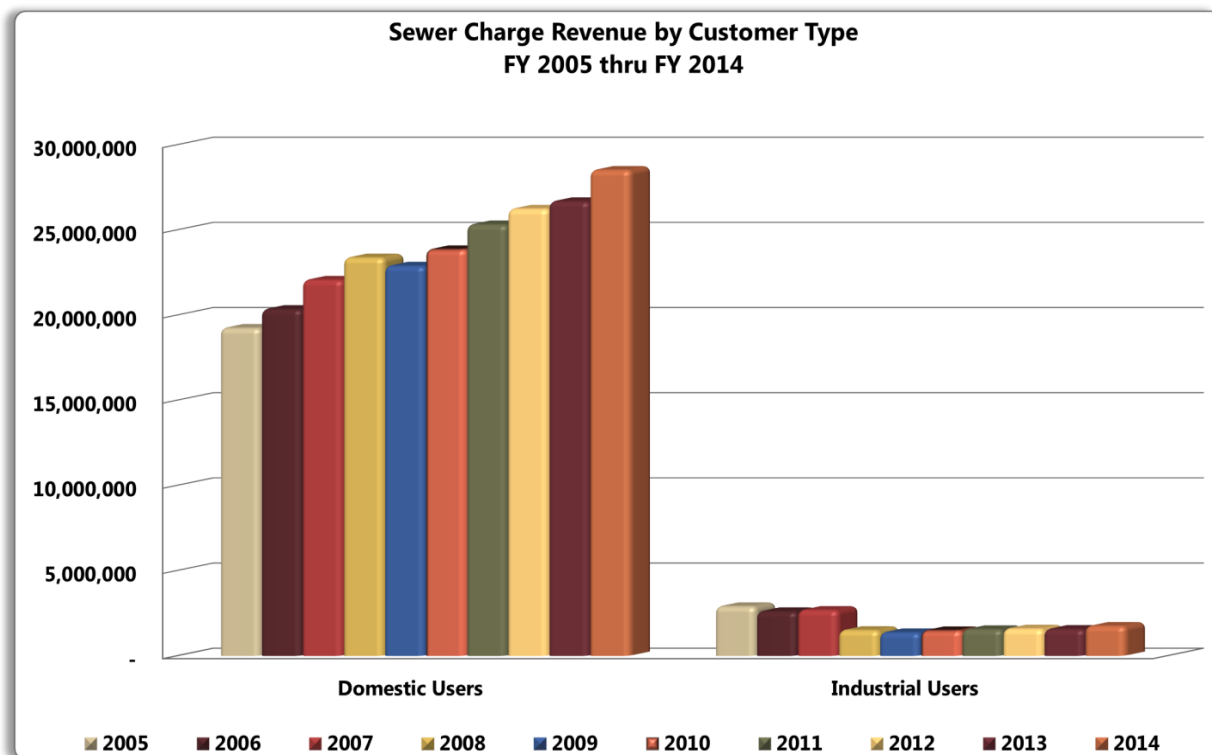


Sewer Charge Revenue by Customer Type

FY 2005 to FY 2014

	FISCAL YEAR									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Domestic Users</b>										
Asheville	\$ 15,284,448	\$ 15,933,744	\$ 17,083,346	\$ 17,979,548	\$ 17,930,855	\$ 18,669,278	\$ 19,638,890	\$ 20,243,750	\$ 20,856,426	\$ 21,527,715
Biltmore Forest	248,609	268,993	266,318	288,205	282,656	275,621	286,574	310,060	316,932	318,743
Black Mountain	704,476	764,964	857,251	819,685	888,368	905,930	921,612	1,013,611	984,242	1,001,650
Henderson County	445,217	570,818	762,702	1,133,375	925,744	813,927	1,044,736	1,090,551	718,582	1,129,721
Montreat	209,974	192,327	263,354	278,131	207,087	242,821	233,859	253,546	278,739	243,406
Weaverville	547,485	528,099	598,764	661,716	602,232	611,983	608,323	648,722	660,062	671,221
Woodfin Sanitary Water & Sewer District	656,303	759,633	848,640	842,717	758,294	803,368	924,567	912,414	989,107	1,024,986
Other	1,160,881	1,345,093	1,397,399	1,381,648	1,309,351	1,548,361	1,670,931	1,776,703	1,886,844	2,611,180
<b>Industrial Users</b>										
	2,912,188	2,617,298	2,693,328	1,510,669	1,386,132	1,498,529	1,565,402	1,599,819	1,577,916	1,758,818
<b>Total</b>	<b>\$ 22,169,581</b>	<b>\$ 22,980,969</b>	<b>\$ 24,771,102</b>	<b>\$ 24,895,694</b>	<b>\$ 24,290,719</b>	<b>\$ 25,369,818</b>	<b>\$ 26,894,894</b>	<b>\$ 27,849,176</b>	<b>\$ 28,268,850</b>	<b>\$ 30,287,440</b>

**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 2005 to FY 2014

	FISCAL YEAR									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Asheville	35,000	35,900	36,700	37,582	37,878	37,878	41,332	40,732	40,420	40,620
Woodfin Sanitary Water & Sewer District	2,330	2,330	2,330	2,374	2,579	2,306	2,317	2,317	2,353	2,422
Black Mountain	2,375	2,400	2,479	2,519	2,579	2,559	2,572	2,544	2,637	2,647
Weaverville	1,390	1,400	1,403	1,488	1,503	2,246	2,281	2,318	2,376	1,694
Henderson County	2,106	2,237	2,574	2,957	3,073	3,165	3,182	3,240	3,275	3,417
Biltmore Forest	637	642	637	633	636	644	639	650	650	650
Montreat	642	642	653	651	652	656	667	669	671	663
<b>Total</b>	<b>44,480</b>	<b>45,551</b>	<b>46,776</b>	<b>48,204</b>	<b>48,900</b>	<b>49,454</b>	<b>52,990</b>	<b>52,470</b>	<b>52,382</b>	<b>52,113</b>

Source: Member Agencies

## Residential Sewer Rates

FY 2005 to FY 2014

Fiscal Year Ended June 30	Monthly Base Rate	Rate Per 1,000 Gallons	Average Monthly Billing
2005	4.69	4.06	20.83
2006	4.83	4.20	21.45
2007	5.05	4.39	22.41
2008	5.25	4.56	23.28
2009	5.41	4.69	23.99
2010	5.61	4.87	24.84
2011	5.81	5.04	25.72
2012	5.98	5.19	26.45
2013	6.13	5.32	27.14
2014	6.28	5.45	27.81

**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 2005 &amp; FY 2014

Commercial User	Type of Business	2005			2014		
		Total Charges	Rank	Percentage of Total Charges	Total Charges	Rank	Percentage of Total Charges
Milkco, Inc.	Dairy Products & Juices	\$ 474,046	2	2.14%	\$ 493,020	1	1.63%
Mission Health System	Health & Emergency Services	168,309	5	0.76	268,372	2	0.88
Ridgecrest Baptist Conference Center	Christian Conference Center	-	-	-	177,690	3	0.58
Givens Estates	Retirement Community	-	-	-	145,699	4	0.48
BONAR - (formerly Colbond)	Chemical Manufacturer	-	-	-	133,406	5	0.44
VA Medical Center - Asheville Department of Veterans Affairs	Veterans Hospital	96,759	6	0.44	125,433	6	0.41
Arcadia Farms	Textile Manufacturing	-	-	-	99,771	7	0.33
Continental Automotive Systems		-	-	-	94,610	8	0.31
Mission Hospital Laundry - (formerly Cooperative Laundry Services)	Laundry Service Provider	-	-	-	92,802	9	0.31
Black Mountain Center	Health Care	43,301	9	0.20	91,734	10	0.30
The Biltmore Company		-	-	-	-	-	-
Lustar Dyeing & Finishing	Textile Manufacturing	326,132	3	1.47	-	-	-
Anvil Kintwear - (formerly Asheville Dyeing & Finishing)	Textile Manufacturing	843,809	1	3.81	-	-	-
Spring Global - (formerly Owen Manufacturing Company, Inc.)	Textile Manufacturing	203,760	4	0.92	-	-	-
Arvin Meritor, Inc.	Manufacturing	63,634	7	0.29	-	-	-
Day International	Textile Machine Parts	48,242	8	0.22	-	-	-
Square D	Electrical Panel Manufacturing	39,032	10	0.18	-	-	-
<b>TOTAL</b>		<b>\$ 2,307,024</b>		<b>10.41%</b>	<b>\$ 1,722,537</b>		<b>5.69%</b>

Source: District Billing Records

## Ratio of Outstanding Debt

FY 2005 to FY 2014

Fiscal Year	Total Outstanding Debt <sup>1</sup>	Debt Per Capita <sup>2</sup>	Per Capita Income <sup>3</sup>	Percentage of Personal Income
2005	109,635,000	1,072	31,112	3.44%
2006	106,716,000	1,019	33,206	3.07%
2007	102,990,000	957	34,544	2.77%
2008	98,597,000	889	34,805	2.56%
2009	95,387,000	848	33,658	2.52%
2010	106,170,490	933	33,911	2.75%
2011	101,533,665	833	35,024	2.38%
2012	96,208,840	797	36,341	2.19%
2013	84,997,015	705	Unavailable	.
2014	106,832,190	891	Unavailable	.

<sup>1</sup> Represents District's outstanding debt as found in Note.

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

<sup>3</sup> U.S. Department of Commerce, Bureau of Economic Analysis

**Note:** See Personal Income by Industry on page 81 to assess economic base of the County.

## Revenue Bond Coverage

FY 2005 to FY 2014

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

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

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

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

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



## Revenue Bond Coverage (continued)

FY 2005 to FY 2014

Fiscal Year Ended June 30	Adjusted Revenues (B)	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
2005	23,562,271	11,169,148	12,393,123	6,946,701	8,336,041	5,446,422	1.78
2006	23,959,694	11,853,663	12,106,031	7,866,765	9,440,118	4,239,266	1.54
2007	26,092,369	11,977,241	14,115,128	8,066,669	9,680,003	6,048,459	1.75
2008	26,104,746	12,070,195	14,034,551	8,074,031	9,688,837	5,960,520	1.74
2009	25,374,157	12,808,349	12,565,808	7,600,385	9,120,462	4,965,423	1.65
2010	26,268,075	12,754,727	13,513,348	7,855,989	9,427,187	5,657,359	1.72
2011	27,654,768	13,522,468	14,132,300	8,565,201	10,278,241	5,567,099	1.65
2012	28,510,573	13,982,269	14,528,304	7,274,680	8,729,616	7,253,624	2.00
2013	29,075,493	13,674,518	15,400,975	8,114,665	9,737,598	7,286,310	1.90
2014	31,096,483	14,081,697	17,014,786	8,408,166	10,089,799	8,606,620	2.02

**Note:**

- 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 &amp; Economic Statistics

FY 2005 to FY 2014

	Population Estimates <sup>1</sup>	Per Capita Income <sup>2</sup>	Median Age <sup>1</sup>	Civilian Labor Force <sup>3</sup>		
				Employed	Unemployed	Unemployment Rate
2005	221,642	31,112	40.2	110,282	5,492	4.7%
2006	226,524	33,206	40.4	115,390	4,797	4.0%
2007	230,766	34,544	40.5	116,794	4,525	3.7%
2008	233,772	34,805	40.7	117,857	5,983	4.8%
2009	236,349	33,658	40.8	112,468	10,687	8.7%
2010	238,818	33,911	40.7	115,148	11,015	8.7%
2011	241,463	35,024	40.9	116,424	10,540	8.3%
2012	244,461	36,341	41.2	118,675	9,858	7.7%
2013	247,912	Unavailable	41.4	121,033	8,518	6.6%
2014	251,995	Unavailable	41.6	121,523	6,156	4.8%

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

**Sources:**

- <sup>1</sup> North Carolina Office of State Budget and Management
- <sup>2</sup> U.S. Department of Commerce, Bureau of Economic Analysis
- <sup>3</sup> North Carolina Department of Commerce, Division of Employment Security

Personal Income by Industry

CY 2005 to CY 2014

	Calendar Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total Personal Income	\$ 5,201,521	\$ 5,605,197	\$ 5,853,294	\$ 6,003,639	\$ 5,883,349	\$ 6,016,882	\$ 6,046,730	\$ 6,353,397	Unavailable	Unavailable
Farm earnings	30,013	39,089	16,620	17,946	19,468	16,280	19,601	20,820	-	-
Nonfarm earnings	5,171,508	5,566,108	5,836,674	5,985,693	5,863,881	6,000,602	6,027,129	6,332,577	-	-
Private earnings	4,329,879	4,674,172	4,891,801	4,969,026	4,817,398	4,933,193	4,980,032	5,270,033	-	-
Agricultural services, forestry, fishing	2,363	3,006	2,835	3,006	4,500	4,786	4,391	4,316	-	-
Mining	5,773	5,800	6,026	4,964	7,200	7,212	6,769	6,931	-	-
Construction	425,329	451,070	478,701	437,634	370,783	332,572	319,599	333,370	-	-
Manufacturing	672,347	688,624	705,617	704,888	678,974	676,180	666,289	703,100	-	-
Durable goods	468,158	486,815	509,109	509,500	499,925	497,547	477,045	496,906	-	-
Nondurable goods	204,189	201,809	196,508	195,388	179,049	178,633	189,244	206,194	-	-
Wholesale trade	195,951	216,590	220,105	219,735	194,901	207,636	217,675	213,885	-	-
Retail Trade	434,090	468,400	485,196	489,370	475,043	484,282	502,492	531,715	-	-
Transportation and public utilities	189,178	205,771	213,405	210,578	205,301	215,207	219,647	236,898	-	-
Services	2,404,848	2,634,911	2,779,916	2,898,851	2,880,696	3,005,318	3,043,170	3,239,818	-	-
Government and government enterprises	841,629	891,936	944,873	1,016,667	1,046,483	1,067,409	1,047,097	1,062,544	-	-
Federal, civilian	228,704	242,504	254,087	276,385	295,468	311,718	323,809	334,727	-	-
Military	24,538	24,319	24,281	26,176	27,588	26,064	26,216	26,633	-	-
State and local	588,387	625,113	666,505	714,106	723,427	729,627	697,072	701,184	-	-

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

## Principal Employers

FY 2005 to FY 2014

Employer	FY 2005			FY 2014		
	Employees	Rank	% of Total County Employment	Employees	Rank	% of Total County Employment
Mission Health System & Hospitals	5,125	1	4.65%	6,994	1	5.76%
Buncombe County Public Schools	3,650	2	3.31%	4,000	2	3.29%
The Biltmore Company	1,057	7	0.96%	1,770	3	1.46%
VA Medical Center - Asheville	1,068	6	0.97%	1,593	4	1.31%
Buncombe County Government	1,882	4	1.71%	1,380	5	1.14%
Ingles Markets, Inc.	2,225	3	2.02%	1,137	6	0.94%
The Grove Park Inn Resort & Spa	1,000	8	0.91%	1,100	7	0.91%
Asheville-Buncombe Technical Community College	-	-	-	1,019	8	0.84%
City of Asheville	1,245	5	1.13%	1,000	9	0.82%
CarePartners	1,000	9	0.91%	950	10	0.78%
Sonopress, Inc. (now known as Arvato Digital Services)	725	10	0.66%	-	-	-
<b>Total for Principal Employers</b>	<b>18,977</b>		<b>17.21%</b>	<b>20,943</b>		<b>17.23%</b>

**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  
North Carolina Employment Security Commission

## Staffing History (FTE's)

FY 2005 to FY 2014

Department	FISCAL YEAR				
	2005	2006	2007	2008	2009
<b>Office of the General Manager</b>					
Office Support	1	1	1	1	1
<b>Human Resources Department</b>					
Human Resource	3	3	3	3	3
Environmental, Health & Safety	2	2	2	2	2
<b>Information Technology Department</b>					
IT & MIS	8	7	8	5	5
Geographic Information Systems	0	0	0	4	4
<b>Financial Services Department</b>					
Finance & Budget	1	1	2	1	1
Accounting, Investments & Cash Flow Mgmt.	3	3	3	3	3
Purchasing & Warehouse	3	3	3	3	3
<b>Water Reclamation Facility</b>					
Office Support	1	0	0	0	0
Plant Operations	15	15	14	13	13
Industrial Waste	4	4	4	4	4
Mechanical Maintenance	9	9	8	8	8
Electrical Maintenance/Hydro	7	7	8	8	8
Fleet Maintenance	4	4	4	4	4
Structural Maintenance	5	5	5	5	5
<b>System Services Department</b>					
Office Support	3	4	4	4	4
System Services	51	52	52	52	52
<b>Engineering Services Department</b>					
Office Support	1	1	1	1	1
Right of Way	3	3	3	3	3
Construction Administration	7	6	5	5	5
Planning and Development	8	7	7	7	7
Design and Drafting	3	3	3	3	3
Engineers	3	3	3	3	3
<b>Management</b>					
Division Heads	6	6	6	7	7
General Manager	1	1	1	1	1
<b>Total</b>	<b>152</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>150</b>

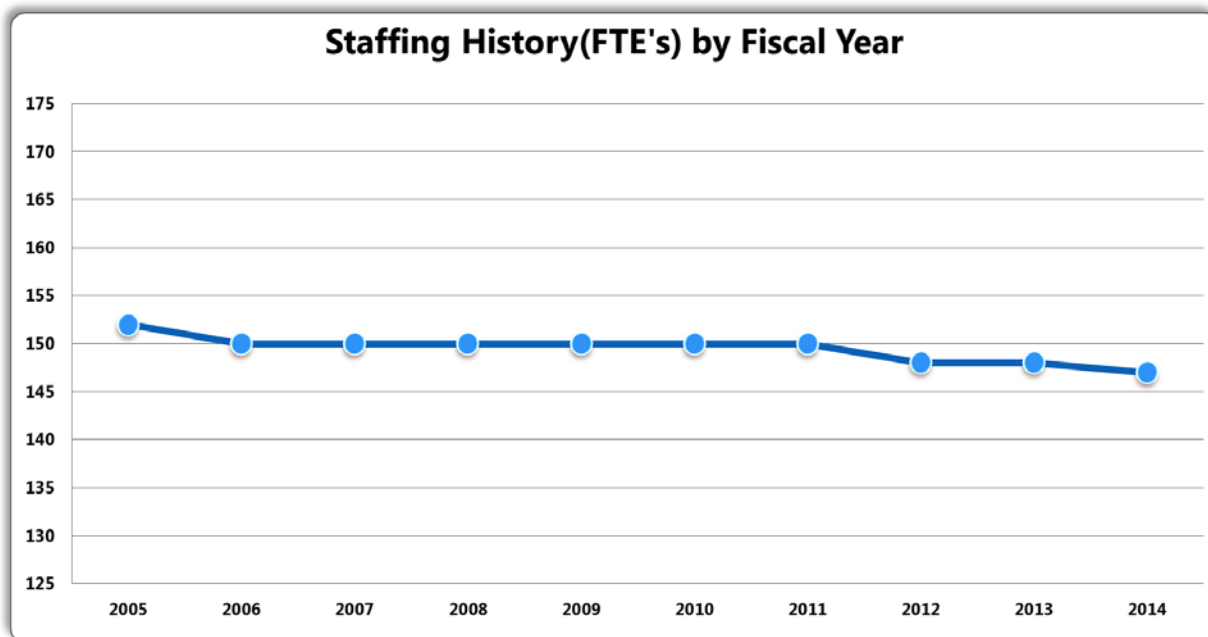
## Staffing History (FTE's) (continued)

FY 2005 to FY 2014

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

Staffing History (FTE's) (continued)

FY 2005 to FY 2014



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

**Source:** District Personnel Records

## Operating Indicators by Division

FY 2005 to FY 2014

DEPARTMENT	FISCAL YEAR				
	2005	2006	2007	2008	2009
<b>Capital Improvement Department</b>					
Linear Feet of rehabilitated Sewer Systems	60,330	59,459	51,272	69,249	45,175
<b>Engineering Services Department</b>					
Sewer Tap Applications	1,597	1,236	1,339	1,145	983
Plans Reviewed	114	115	123	123	101
Linear Feet of Accepted Sewer Systems	65,484	76,056	129,025	78,451	77,572
<b>Human Resources Department</b>					
Number of workforce injuries	10	8	11	4	11
Lost Work Rate per 100 employees	1.32	2.00	3.00	2.56	3.00
<b>System Services Department</b>					
Average Response Time to sewer problem (hours)	0.66	0.71	0.57	0.53	0.49
Lines Washed (lineal feet) - in-house only	510,187	638,683	662,245	893,206	920,525
Construction Repairs to Sewer Lines	636	602	542	513	528
Taps Installed	305	294	308	260	211
Manhole Repairs	485	483	406	411	458
Sanitary Sewer Overflows	78	55	52	41	23
<b>Water Reclamation Facility</b>					
Pump Stations	21	23	31	31	31
Sanitary Sewers (approximate miles)	890	900	900	930	920
Treatment Provided (millions of gallons)	8,723.50	7,665.00	6,643.00	5,767.00	6,022.50
Daily (average) flow treated (millions of gallons daily)	23.9	21.0	18.2	15.8	16.5
Maximum daily flow treated (millions of gallons daily)	63.6	51.0	47.9	33.2	40.7
Percentage of plant capacity used	59.75%	52.5%	45.5%	39.5%	41.3%
Cost per millions of gallons treated	\$ 510	\$ 609	\$ 786	\$ 873	\$ 877
Energy cost per millions of gallons treated	\$ 82	\$ 141	\$ 175	\$ 184	\$ 180
Total suspended solids (TSS) removal efficiency (percentage)	88%	90%	90%	92%	91%
Inspection of Significant Industrial Users	23	24	20	23	24
Restaurant inspections for Grease Reduction Compliance	650	680	710	995	890



## Operating Indicators by Division (continued)

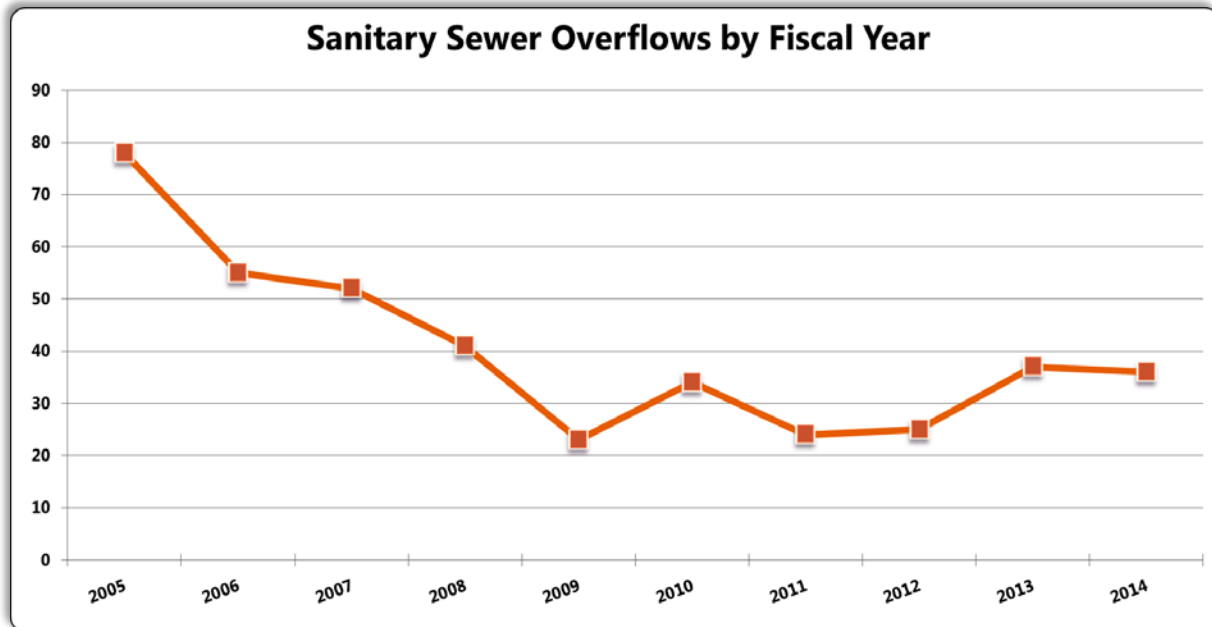
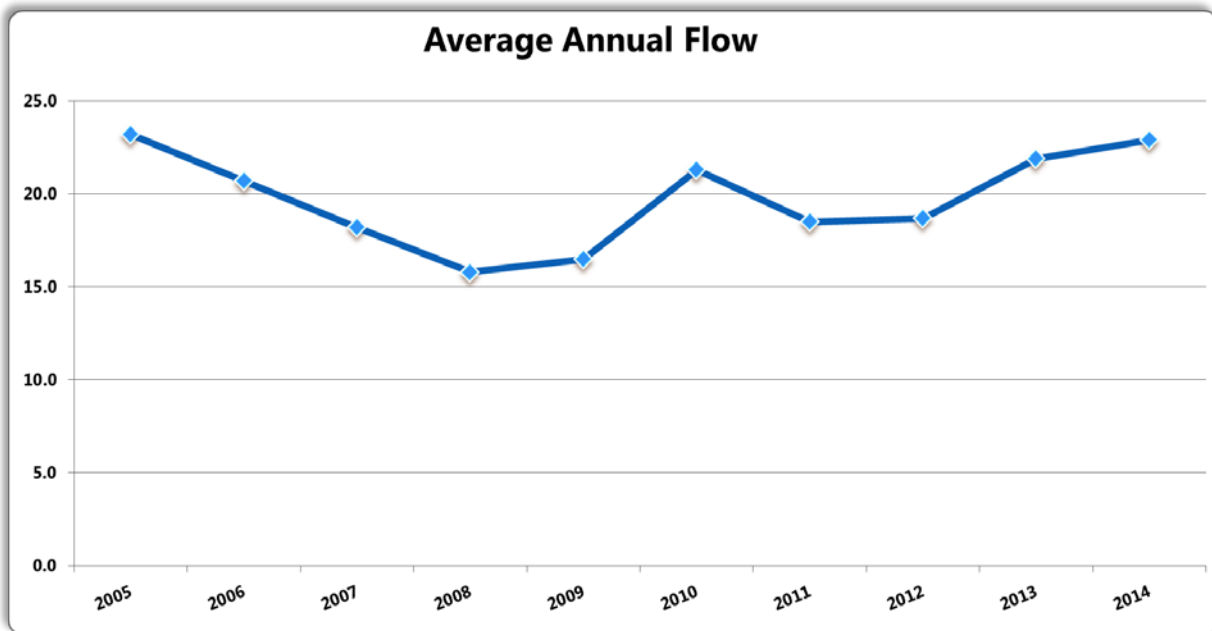
FY 2005 to FY 2014

DEPARTMENT	FISCAL YEAR				
	2010	2011	2012	2013	2014
<b>Capital Improvement Department</b>					
Linear Feet of rehabilitated Sewer Systems	45,450	49,099	52,641	43,519	51,110
<b>Engineering Services Department</b>					
Sewer Tap Applications	1,094	925	876	1,356	1,563
Plans Reviewed	47	37	33	92	90
Linear Feet of Accepted Sewer Systems	10,400	52,856	25,550	44,309	18,314
<b>Human Resources Department</b>					
Number of workforce injuries	11	7	11	5	12
Lost Work Rate per 100 employees	7.02	4.82	5.52	3.46	7.85
<b>System Services Department</b>					
Average Response Time to sewer problem (hours)	0.52	0.59	0.55	0.51	0.52
Lines Washed (lineal feet) - in-house only	1,019,852	584,461	873,077	807,746	769,037
Construction Repairs to Sewer Lines	447	486	523	507	589
Taps Installed	225	196	208	199	218
Manhole Repairs	461	404	436	342	355
Sanitary Sewer Overflows	34	24	25	37	36
<b>Water Reclamation Facility</b>					
Pump Stations	31	32	32	32	32
Sanitary Sewers (approximate miles)	960	977	986	1,000	1,000
Treatment Provided (millions of gallons)	7,774.50	6,752.50	6,825.50	7,993.50	8,358.50
Daily (average) flow treated (millions of gallons daily)	21.3	18.5	18.7	21.9	22.9
Maximum daily flow treated (millions of gallons daily)	57.8	56.8	50.2	62.1	74.6
Percentage of plant capacity used	53.3%	46.3%	46.8%	54.8%	57.3%
Cost per millions of gallons treated	\$ 675	\$ 803	\$ 801	\$ 617	\$ 614
Energy cost per millions of gallons treated	\$ 116	\$ 151	\$ 136	\$ 119	\$ 101
Total suspended solids (TSS) removal efficiency (percentage)	90%	90%	90%	93%	96%
Inspection of Significant Industrial Users	18	23	18	17	18
Restaurant inspections for Grease Reduction Compliance	846	606	906	1,364	1,190

Source: District Departmental Data

Operating Indicators by Division (continued)

FY 2005 to FY 2014



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, 2014, 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 20, 2014.

### 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 District'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.

Handwritten signature of Cherry Rickett LLP in cursive script.

Charlotte, North Carolina  
October 20, 2014