

***Broad River Water Authority  
Spindale, North Carolina***



**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2014**

# **Broad River Water Authority**

**Spindale, North Carolina**

## **BOARD MEMBERS**

Tommy Hardin - Chairman  
Rob Bole - Vice-Chairman  
Rus Scherer – Treasurer  
Maria Hunnicutt – Secretary/Manager

Don Baynard  
Mickey Bland  
Stan Clements  
Carl Classen  
Mike Ellenburg

# Broad River Water Authority

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# BURLESON & EARLEY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Broad River Water Authority  
Spindale, North Carolina

### **Report on the Financial Statements**

We have audited the basic financial statements of the business-type activity and major fund of the Broad River Water Authority as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise Broad River Water Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## ***Opinions***

In our opinion, based upon our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Broad River Water Authority as of June 30, 2014 and the changes in financial position and cash flows thereof, for the year then ended in conformity 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 Management's Discussion and Analysis on pages 3–10 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Broad River Water Authority. The Schedule of Revenues and Expenditures - Budget and Actual are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Revenues and Expenditures - Budget and Actual is the responsibility of management and was derived from and relates 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 by us. In our opinion, based on our audit and the procedures performed as described above, the Schedule of Revenues and Expenditures - Budget and Actual is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Burlison & Earley, P.A.*  
Certified Public Accountants  
October 30, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Broad River Water Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2014. We encourage readers to read the information presented here in conjunction with the financial information contained in the various sections of this audit report.

### FINANCIAL HIGHLIGHTS

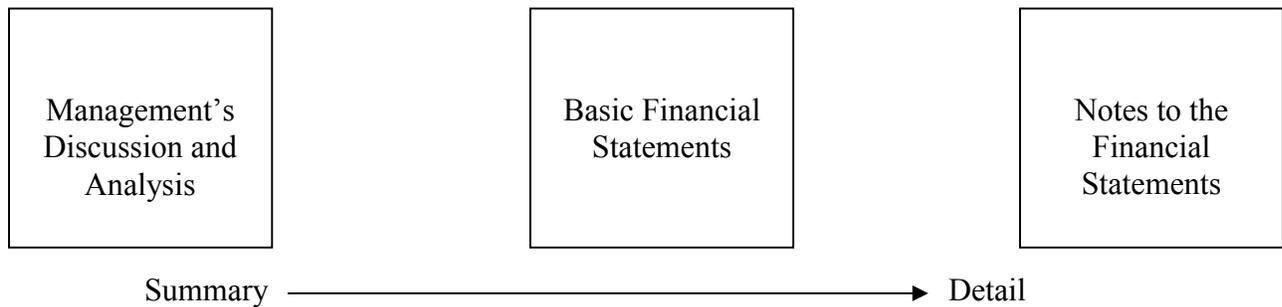
- The assets and deferred outflows of resources of Broad River Water Authority exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$14,712,985 (*net position*).
- The Authority's total net position increased by \$1,938,659, primarily due to increased operating revenues.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The audited financial statements of the Authority consist of two components: 1) basic financial statements and 2) notes to the financial statements (see Figure 1). In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Broad River Water Authority.

#### Required Components of Annual Financial Report

Figure 1



The Basic Financial Statements are prepared using the full accrual basis of accounting. They consist of 3 statements. The first is the Statement of Fund Net Position. Assets and liabilities are classified between current and long-term. This statement provides a summary of the Authority's investments in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

The next statement is the Statement of Revenues, Expenses, and Changes in Fund Net Position. This statement is used in evaluating whether the Authority has recovered all of its costs through revenues. Its information is used in determining credit worthiness.

The final required statement is the Statement of Cash Flows. This statement reports cash inflows and outflows in the following categories: operating, investing, and financing activities. Based on this data, the user can determine the sources of cash, and the change in cash.

The Notes to the Financial Statements provide more detail information and should be read in conjunction with the statements.

**FINANCIAL POSITION SUMMARY**

<u>At June 30</u>	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Assets</b>				
Current Assets	\$ 5,792,150	\$ 6,740,659	\$ (948,509)	-14%
Restricted Assets	340,450	197,620	142,830	72%
Capital Assets	34,594,334	33,416,337	1,177,997	4%
Deferred Outflows of Resources	943,303	1,028,735	(85,432)	-8%
	<u>\$ 41,670,237</u>	<u>\$ 41,383,351</u>	<u>\$ 286,886</u>	<u>1%</u>
<b>Liabilities</b>				
Current Liabilities	\$ 2,260,192	\$ 2,107,965	\$ 152,227	7%
Long-term Liabilities	24,697,060	26,501,060	(1,804,000)	-7%
Total Liabilities	<u>26,957,252</u>	<u>28,609,025</u>	<u>(1,651,773)</u>	<u>-6%</u>
<b>Net Position</b>				
Investment in Capital Assets	8,170,338	5,247,748	2,922,590	56%
Restricted for Debt Retirement	211,605	197,620	13,985	7%
Unrestricted	6,331,042	7,328,958	(997,916)	-14%
Total Net Position	<u>14,712,985</u>	<u>12,774,326</u>	<u>1,938,659</u>	<u>15%</u>
	<u>\$ 41,670,237</u>	<u>\$ 41,383,351</u>	<u>\$ 286,886</u>	<u>1%</u>

Net position may serve over time as a useful indicator of the Authority’s financial position. The Authority’s net position exceeded liabilities by \$14,712,985 at June 30, 2014, a \$1,938,659 increase from June 30, 2013. One portion of net position reflects the Authority’s net investment in capital assets (e.g. water distribution infrastructure, equipment and vehicles). The Authority uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the Authority’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 the sources, since the capital assets cannot be used to liquidate these liabilities.

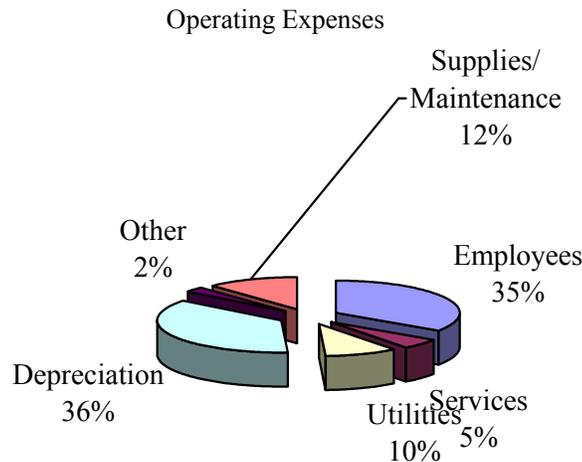
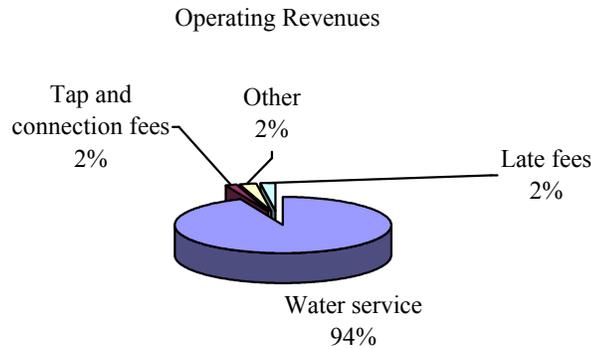
Several particular aspects of the Authority’s financial operations positively influenced total net position:

- Sale of cellular tower lease rights.
- Continued diligence in controlling expenses and adherence to the approved budget
- Continue payment on debt resulting in lower interest expense.

## SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION

<u>For the Fiscal Year Ended June 30</u>	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenues	\$ 6,422,554	\$ 6,233,571	\$ 188,983	3%
Operating Expenses	3,654,906	3,362,163	(292,743)	-9%
Operating Income Before Nonoperating Revenues and Expenses	2,767,648	2,871,408	(103,760)	-4%
Nonoperating Revenues and Expenses, net	(828,989)	(1,290,895)	461,906	36%
Capital Contributions	-	371,431	(371,431)	-100%
Increase in Net Position	1,938,659	1,951,944	(13,285)	-1%
Beginning Net Position	12,774,326	10,822,382	1,951,944	18%
Ending Net Position	<u>\$ 14,712,985</u>	<u>\$ 12,774,326</u>	<u>\$ 1,938,659</u>	15%

The daily operations of the Authority are funded through the collection of water revenues. The customer base includes a mixture of single and multi-family residential, commercial, institutional, and industrial.



## SUMMARY OF CASH FLOW ACTIVITIES

The following shows a summary of the major sources and uses of cash and cash equivalents. Cash equivalents are considered cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

<b><u>For the Fiscal Year Ended June 30</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>\$ Change</u></b>	<b><u>% Change</u></b>
Cash Flows from Operating Activities	\$ 4,168,742	\$ 3,971,816	\$ 196,926	5%
Cash Flows from Capital and Related Financing Activities	(4,817,641)	(3,378,939)	(1,438,702)	43%
Cash Flows from Investing Activities	26	77	(51)	-66%
Net Increase (Decrease) in Cash and Cash Equivalents	(648,873)	592,954	(1,241,827)	-209%
Cash and Cash Equivalents, beginning of year	5,595,643	5,002,689	592,954	12%
Cash and Cash Equivalents, end of year	<u>\$ 4,946,770</u>	<u>\$ 5,595,643</u>	<u>\$ (648,873)</u>	-12%

## CAPITAL ASSET AND DEBT ADMINISTRATION

### **Capital Assets**

During fiscal year 2014, the Authority expended approximately \$2.5 million on capital activities. This included approximately \$30,000 for vehicles, \$1.3 million for the automated meter read project, \$870,000 for the generator project, \$136,000 for water line projects and the balance for equipment and building improvements.

Acquisitions for the current year were funded from capital reserves.

### SUMMARY OF CAPITAL ASSETS

	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>\$ Change</u></b>	<b><u>% Change</u></b>
Land and improvements	\$ 462,110	\$ 453,907	\$ 8,203	2%
Construction in progress	-	89,456	(89,456)	-100%
Building and improvements	22,109,264	22,014,291	94,973	0%
System lines	21,026,783	20,890,805	135,978	1%
Vehicles	302,198	272,619	29,579	11%
Computer equipment	334,255	332,139	2,116	1%
Equipment	2,661,934	330,288	2,331,646	706%
	<u>46,896,544</u>	<u>44,383,505</u>	<u>2,513,039</u>	6%
Accumulated depreciation	<u>(12,302,210)</u>	<u>(10,967,168)</u>	<u>(1,335,042)</u>	12%
Capital assets, net	<u>\$ 34,594,334</u>	<u>\$ 33,416,337</u>	<u>\$ 1,177,997</u>	4%

**Long-term Debt**

As of June 30, 2014, the Authority had total debt outstanding of \$26,423,996.

**SUMMARY OF OUTSTANDING DEBT**

	<u>2014</u>	<u>2013</u>
Water system revenue bonds	\$ 26,055,036	\$ 27,766,214
Add: unamortized premium	368,960	402,375
Net debt	<u>\$ 26,423,996</u>	<u>\$ 28,168,589</u>

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

In order to understand the position of Broad River Water Authority today, one should consider the factors which have impacted our business and consider the strategies implemented over the years to adapt to a dynamic environment.

**Industrial Loss:**

Since the Authority’s inception in December 2000, its major challenge has been to manage the impact of a transition in the customer base. For the 2001 calendar year, the “top ten” customers were all industrial based, with a heavy emphasis in the textile industry. These “top ten” customers accounted for over 50% of water consumption and nearly 40% of water sales revenue. However, due to national industrial trends and changes in trade laws, the water usage by the Authority’s industrial customers dropped 90% in a 10-year period. This led to reduced revenue, decreased water production, and a shift in capital spending.

**Waterline Expansion:**

To help mitigate the trend of industrial loss, the Authority initiated an aggressive program to expand waterlines to County residents and businesses in need of public water. Partnerships with the North Carolina Rural Economic Development Center, Rutherford County, and the Town of Ruth generated over \$4.5 million in direct grants for waterline expansion from 2006 to 2011. These funds, along with over \$2.5 million of the Authority’s funds, allowed for the construction of more than 75 miles of waterline, and the growth of our customer base by nearly 1,000 accounts (19% growth). However, during this 5-year period, the increased revenue from new customers was not evident immediately, and the addition of residential customers had little impact on the overall total of water production requirements.

**Rate Setting:**

The most effective and immediate means to increase revenue when consumption has decreased is the use of the rate structure and imposing rate increases. The Authority chose a rate-setting philosophy with a high minimum charge and reasonable declining block volume rates. This strategy seeks to provide a minimum revenue stream that is less subject to sudden volume changes resulting from an industry closing or weather patterns. Significant rate increases were implemented in July 2006 (15%), July 2007 (10%), and July 2008 (5%). While steady rate increases have been implemented since that time (2 – 3% annually), the average water bill (5,000 gallons) is currently \$45.80. This is comparable with other local utilities (in Cleveland, Rutherford, and Polk Counties) which have “outside” rates for water customers. In addition, future rate increases can be determined and justified through a financial model that was created for the Authority in 2007 and updated yearly. The model accounts for changes in revenues and expenses, capital improvement needs, reserve funds, and the ability to meet bond covenants.

**Resale Partnership:**

In 2000, the average production of the water treatment plant was 5 MGD. With the loss of industry and the impact of drought conditions in 2002 and 2007, annual production dipped to an average of 2.74 MGD in 2008. Having excess capacity presented an opportunity for the Authority to partner with a major bulk resale customer. An agreement was reached in July 2008 for the Authority to sell bulk finished water to Inman-Campobello Water District (ICWD) through Polk County. ICWD is based in Spartanburg County, SC, with a primarily residential customer base of over 12,000 connections. Polk County, which neighbors Rutherford County, had no water customers at the time of the agreement, but planned to slowly build a system. The agreement allowed the Authority to sell a minimum of 2.0 MGD and a maximum of 4.1 MGD to Polk County/ ICWD for a period of 15 years. Water sales began December 31, 2008. Since that time, Polk County/ ICWD has purchased an average of 2.7 MGD, and generated total revenue of \$7.8 million.

**Historical Comparison of Consumption, Revenue and Production:**

The success of the Authority’s growth, strategies, and partnerships are evident in the data below. The customer base has expanded, consumption/ production have rebounded and revenues have diversified and greatly increased. (Note that 2002 is the first calendar year where a full 12 months of data was available).

<b>Annual Water Consumption (MG)</b>						
	<b>2002</b>		<b>FY 2007</b>		<b>FY 2014</b>	
Residential	282	18%	290	35%	281	16%
Commercial	114	7%	134	16%	93	5%
Industrial	871	56%	139	17%	77	4%
Bulk	283	18%	257	(2)31%	1361	75%
<b>TOTAL</b>	<b>1550</b>		<b>820</b>		<b>1812</b>	
<b>Annual Revenue (\$ 000)</b>						
	<b>2002</b>		<b>FY 2007</b>		<b>FY 2014</b>	
Residential	\$1,677	42%	\$2,235	59%	\$2,899	48%
Commercial	\$518	13%	\$743	20%	\$748	12%
Industrial	\$1,433	36%	\$447	12%	\$400	7%
Bulk	\$407	10%	\$380	10%	\$2,027	33%
<b>TOTAL</b>	<b>\$4,035</b>		<b>\$3,805</b>		<b>\$6,074</b>	
<b>Annual Water Production</b>						
	<b>2002</b>		<b>FY 2007</b>		<b>FY 2014</b>	
Total MG	1619.38		1029.75		1744.28	
Ave Day (MGD)	4.44		2.82		4.78	

<sup>(1)</sup> Grassy Pond Water Company represents 3,850 accounts, all residential/ commercial. <sup>(2)</sup> Includes the addition of Polk/ ICWD which represents 12,000 accounts, 95% residential/commercial.

**Where We Are Today:**

“Broad River Water Authority will strive to be the foremost influence of economic prosperity and quality of life in their service areas” – this was the vision statement adopted by the Board of Directors in

February 2013. A long-term strategic plan was adopted at the same time which outlined the focus areas for the Authority. Several capital projects in FY 2014 addressed the strategic objectives, and other activities are underway to position the Authority to further achieve its vision.

- Capital Improvements/ Rehabilitation Focus:

Prior to 2011 during the emphasis of waterline expansion, few capital funds were allocated to rehabilitation or replacement of aging infrastructure. With stable revenues and higher production requirements, the Authority has been able to increase their focus towards modernizing and replacing aging infrastructure. Over the past three years, the most significant improvements have included the following: the Water Treatment Plant (which was originally built 1982) underwent a \$7 million modernization in FY 2011, a 750,000 gallon elevated tank was reconditioned both internally and externally, and several miles of aging distribution waterlines in residential areas have been replaced.

For FY 2014, a system-wide meter replacement project was completed with the installation of 6,600 new meters equipped with radio-read technology (\$1.6 million), the generator at the Water Treatment Plant was replaced with a conversion of power from 2400 V to 480 V along with replacing several pump motors (\$850,000), and a 5 million gallon ground storage tank at Poors Ford was reconditioned.

- Technology Focus:

The meter replacement project in FY 2014 addressed the need to replace aging infrastructure in addition to implementing modern technology. This has many advantages including accurate metering and billing, “data logging” which shows water usage from an individual meter on an hourly basis (or less if required), collection all readings for billing in a 2-day time period, alarms/ alerts such as leaks and tampering, and improved safety for meter readers by reducing the need to maneuver a vehicle off the road and exit the vehicle to read meters by sight with manual data entry.

In conjunction with the meter project, the reading and billing software was changed to a “cloud based” system, MasterLinx. This offers additional tools for customer service, reporting, and collection of payments.

- Capacity Focus:

The Water Treatment Plant currently has the permitted capacity of 8 MGD. Steps are being taken to increase the permitted capacity to 10 MGD in prepare for future needs and growth.

- Customer Focus:

The Authority has committed to educating and informing the public about the true value of water using presentations to community groups and reminders of conservation/ “water facts” online, on the monthly bills, and in the “new customer” welcome booklet. Technology has been implemented to notify customers prior to disconnection by an auto-dialer, and additional payment methods are now available online and over the phone through an Interactive Voice Response program.

- Capital Reserve Focus:

The Authority continues to see the reserve fund as a measure of success and security. Although some funds from the reserve were used to fund the majority of capital projects in FY 2014, the commitment to replenish the fund is strong. The sale of the leases for two cellular providers on one of the elevated water tanks provided a boost to this fund. In future budgets, the goal is to increase or at least maintain the reserve fund.

## **REQUESTS FOR INFORMATION**

This report is designed to provide an overview of the Authority'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 the Authority Manager, Broad River Water Authority, PO Box 37, Spindale, NC 28160.

## **BASIC FINANCIAL STATEMENTS**

**Broad River Water Authority  
Statement of Fund Net Position**

At June 30	2014
<b>Assets</b>	
<b>Current assets:</b>	
<b>Unrestricted assets:</b>	
Cash and cash equivalents	\$ 4,606,320
Customer accounts receivable - net	1,039,775
Other receivables - net	146,055
Total unrestricted assets	5,792,150
<b>Restricted assets:</b>	
Cash and cash equivalents	340,450
Total current assets	6,132,600
<b>Noncurrent assets:</b>	
<b>Capital assets:</b>	
Land and other non-depreciable assets	443,112
Capital assets, net of depreciation	34,151,222
Total capital assets	34,594,334
Total assets	40,726,934
<b>Deferred outflows of resources</b>	
Deferred charge on refunding	943,303
<b>Liabilities</b>	
<b>Current liabilities:</b>	
<b>Payable from unrestricted assets:</b>	
Current portion long term debt	1,770,586
Accounts payable	257,851
Accrued salaries and related payables	10,258
Customer deposits and overpayments	128,845
Accrued interest	92,652
Total current liabilities	2,260,192
<b>Noncurrent liabilities:</b>	
Accrued vacation payable	43,650
Noncurrent portion long term debt	24,653,410
Total noncurrent liabilities	24,697,060
Total liabilities	26,957,252
<b>Deferred inflows of resources</b>	
	-
<b>Net position:</b>	
Net investment in capital assets	8,170,338
Restricted for debt retirement	211,605
Unrestricted	6,331,042
Total net position	\$ 14,712,985

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

**Broad River Water Authority**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**

<b>For the Fiscal Year Ended June 30</b>	<b>2014</b>
<b>Operating revenue:</b>	
Water service	\$ 6,019,062
Tap and connection fees	98,540
Water testing fees	5,300
Late fees	149,023
Other operating	150,629
Total revenue	6,422,554
 <b>Operating expenses:</b>	
Salaries and employee benefits	1,260,999
Professional services	84,752
Departmental supplies and expenses	354,337
Telephone	24,567
Travel and training	7,702
Repairs and maintenance	13,051
Vehicle maintenance	67,943
Licenses and franchise fees	7,858
Utilities	347,475
Contracted services	102,617
Depreciation	1,335,042
Other operating	48,563
Total expenses	3,654,906
Operating income	2,767,648
 <b>Nonoperating revenues (expenses):</b>	
Sale of lease rights	385,982
Investment earnings	26
Interest on bond indebtedness	(1,214,997)
Total nonoperating revenues (expenses)	(828,989)
Change in net position	1,938,659
Total net position, beginning of year	12,774,326
Total net position, end of year	\$14,712,985

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

**Broad River Water Authority**  
**Statement of Cash Flows**

<b>For the Fiscal Year Ended June 30</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 6,394,782
Cash paid for goods and services	(950,480)
Cash paid to employees for services	(1,275,560)
Net cash provided by operating activities	4,168,742
 <b>Cash flows from capital and related financing activities:</b>	
Proceeds from sale of lease rights	385,982
Acquisition and construction of capital assets	(2,518,037)
Capital contributions	193,438
Interest payments on debt maturities	(1,167,846)
Principal payments on debt maturities	(1,711,178)
Net cash used by capital and financing activities	(4,817,641)
 <b>Cash flows from investing activities:</b>	
Interest on investments	26
Net increase in cash and cash equivalents	(648,873)
Cash and cash equivalents, beginning of year	5,595,643
Cash and cash equivalents, end of year	\$ 4,946,770
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 2,767,648
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,335,042
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(36,632)
Increase (decrease) in accounts payable	108,385
Increase (decrease) in customer deposits	8,860
Increase (decrease) in accrued salaries and related payable:	(14,561)
Total adjustments	1,401,094
Net cash provided by operating activities	\$ 4,168,742

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

**Broad River Water Authority**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2014**

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Broad River Water Authority conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Broad River Water Authority (Authority) is a public body and a body politic and corporate created under the authority of Chapter 162A-1 of the General Statutes of North Carolina. The Certificate of Incorporation for the Authority was issued by the Secretary of State on August 3, 1999, under the name of Spindale-Rutherfordton Water Authority. On April 20, 2000, a Certificate of Name Change was issued by the Secretary of State changing the name of the Authority to Broad River Water Authority.

The Authority was formed by resolution of the political subdivisions of the Town of Spindale and the Town of Rutherfordton. Subsequently, the County of Rutherford and the Town of Ruth joined the Authority pursuant to Certificates of Joinder issued by the Secretary of State on December 30, 1999, and March 10, 2000, respectively. The business and affairs of the corporation are managed by the members of the Authority who determine the policies and activities of the corporation within the confined of the stated purposes of the corporation as allowed and provided by Chapter 162A, Article I, of the North Carolina Statutes. The Authority consists of eight (8) members. The Town of Spindale, the Town of Rutherfordton, the Town of Ruth, and the County of Rutherford each appoint two (2) members of the Authority.

B. Purpose

The Authority was organized to acquire and operate water systems serving Rutherford County from Duke Energy Corporation.

C. Basis of Presentation

Fund financial statements provide information about the Authority's funds. Statements for the proprietary fund category are presented.

Proprietary Funds include the following fund type:

*Enterprise Funds* – Enterprise Funds account 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 use 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, or other purposes. The Authority has one Enterprise Fund for water operations.

D. Measurement of Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus. These statements are reported using the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include capital contributions.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Budgetary Data

The Authority's budgets are adopted as required by the North Carolina General Statutes. An annual operating budget is adopted for the enterprise fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Capital Improvements Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

F. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

1. Deposits and Investments

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

State law [G.S. 159-30 (c)] authorizes the Authority 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; 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 Authority'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 (2a7) 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.

2. Cash and Cash Equivalents

The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

3. Accounts Receivable

The amount shown on the Statement of Fund Net Position for receivables is net of an allowance for doubtful accounts. This amount is estimated by analyzing the accounts receivable aging and the percentage of receivables that were written off in previous years.

Unbilled revenue represents revenues that were earned in the year ended June 30, 2014, but not billed in that year.

Other receivables primarily represent the sales tax refund due from the North Carolina Department of Revenue for the sales tax paid during the fiscal year ended June 30, 2014.

4. Capital Assets

The Authority's capital assets are recorded at original cost at the time of acquisition and depreciated over the useful lives, ranging from 5 – 100 years, on a straight line basis. Minimum capitalization cost is \$5,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in the earnings for the period.

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of fund net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority has one item that meets this criterion, a deferred charge on refunding. In addition to liabilities, the statement of fund net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority does not have any items that meet this criterion.

6. Compensated Absences

The Authority allows its full time employees to accumulate up to thirty days earned vacation and such leave is fully vested when earned. Accumulated earned vacation at June 30, 2014 was \$43,650. Accumulated vacation is accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned. The current portion of the

accumulated vacation pay is not considered to be material and therefore, no provision for this has been made in the accompanying financial statements.

Employees can accumulate an unlimited amount of sick leave. Sick leave may be used in the determination of length of service for retirement benefit purposes. Since the Authority has no obligation for accumulated sick leave until it is taken, no accrual for sick leave has been made.

7. Net Position

Net position in proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

**Note 2 - Detailed Notes on All Funds**

A. Assets

1. Deposits and Investments

All of the Authority'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 Authority, these deposits are considered to be held by the Authority's agents in their names. 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 Authority or escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Authority 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 of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Authority does not have a deposit policy for custodial credit risk.

At June 30, 2014, the Authority's deposits had a carrying amount of \$4,734,125 and a bank balance of \$4,819,603. Of the bank balance, \$250,000 was covered by Federal Depository Insurance and \$4,569,603 was covered by collateral held under the Pooling Method.

At June 30, 2014, the Authority had \$211,605 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Authority has no formal policy regarding credit risk.

At June 30, 2014, the Authority had \$1,040 in petty cash.

2. Accounts Receivable

The accounts receivable consists of the following at June 30, 2014:

Customers billed	\$1,043,740
Unbilled revenues	194,405
Less: allowance for doubtful accounts	<u>(198,370)</u>
Total accounts receivable	<u>\$ 1,039,775</u>

3. Capital Assets

The capital assets of the Broad River Water Authority at June 30, 2014 consist of the following:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 89,456	\$ -	\$ (89,456)	\$ -
Land	443,112			443,112
Total capital assets not being depreciated	<u>532,568</u>	<u>-</u>	<u>(89,456)</u>	<u>443,112</u>
Capital assets being depreciated:				
Land improvements	10,795	8,203		18,998
Building and improvements	22,014,291	94,973		22,109,264
System lines	20,890,805	135,978		21,026,783
Vehicles	272,619	29,579		302,198
Computer Equipment	332,139	2,116		334,255
Equipment	330,288	2,331,646		2,661,934
Total capital assets being depreciated	<u>43,850,937</u>	<u>2,602,495</u>	<u>-</u>	<u>46,453,432</u>
Less accumulated depreciation for:				
Land improvements	2,690	1,814		4,504
Building and improvements	7,623,859	754,367		8,378,226
System lines	2,611,675	268,076		2,879,751
Vehicles	180,348	43,951		224,299
Computer Equipment	331,286	401		331,687
Equipment	217,310	266,433		483,743
Total accumulated depreciation	<u>10,967,168</u>	<u>1,335,042</u>	<u>-</u>	<u>12,302,210</u>
Total capital assets being depreciated, net	<u>32,883,769</u>			<u>34,151,222</u>
Business-type activities capital assets, net	<u>\$ 33,416,337</u>			<u>\$ 34,594,334</u>

4. Restricted Assets

The Water System Revenue Bonds call for certain funds to be placed into a Reserve Fund. These funds are restricted to payment of certain items approved in the Bond agreement. Any interest earned by these funds is also restricted. Customer deposits held by the Authority before any services are supplied are restricted to the service for which the deposit was collected.

<u>Broad River Water Authority Restricted Cash</u>	
Customer deposits	\$ 128,845
Restricted for debt retirement	211,605
Total Restricted Cash	<u>\$ 340,450</u>

5. Deferred Outflows of Resources

Deferred outflows of resources consist of the following at June 30, 2014:

Deferred charge on 2005 advanced refunding	<u>\$ 943,303</u>
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B. Liabilities

1. Local Governmental Employees' Retirement System

*Plan Description:* The Authority contributed to the statewide Local Government 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 Authority is required to contribute at an actuarially determined rate. For the Authority, the current rate for employees is 7.07% of annual covered payroll. The contribution requirements of members and of the Authority are established and may be amended by the North Carolina General Assembly. The Authority's contributions to LGERS for the years ended June 30, 2014, 2013 and 2012 were \$68,552, \$62,220, and \$64,836, respectively. The contributions made by the Authority equaled the required contributions for each year.

Supplemental Retirement Income Plan

On July 1, 2001, the Authority elected to participate in the Supplemental Retirement Income Plan of North Carolina, a 401(k) Plan. Employee contributions to the plan are voluntary. The Authority contributes amounts equal to 5% of each employee's gross annual salary. Contributions are remitted bi-weekly. Such contributions vest immediately. Authority contributions to the plan totaled \$46,997, \$46,781 and \$45,414 for the years ended June 30, 2014, 2013 and 2012, respectively.

## 2. Long Term Obligations

### Water System Revenue Bonds

On December 1, 2000, the Authority issued Water System Revenue Bonds – Series 2000 in the amount of \$30,440,000. These bonds were issued to finance the purchase of the water system from Duke Energy.

On July 1, 2005, the Authority refunded and defeased the 2000 series bonds by placing the proceeds of new bonds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2000 Series bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 2014, \$22,955,000 of the 2000 Series bonds are considered to be defeased. These bonds are recorded including an unamortized premium of \$368,960.

On October 21, 2008, the Authority issued the 2008 series bonds. The proceeds of these bonds were used in the construction of the waterline expansion to the Inman-Campobello Water District. The principal amount of this issue was \$2,000,000.

On January 11, 2010, the Authority issued the 2010 series bonds. The proceeds of these bonds are being used for the water plant expansion. The principal amount of this issue was \$6,000,000. At June 30, 2014, the cash balance from this issue is \$211,605 and is presented as restricted in these financial statements.

At June 30, 2014, the following amounts are outstanding for these bond issues:

Series 2005	\$19,925,000
Series 2008	1,402,304
Series 2010	<u>4,727,732</u>
	<u>\$26,055,036</u>

The future payments of the bonds for the years ending June 30<sup>th</sup> are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,770,586	\$ 1,112,395	\$ 2,882,981
2016	1,845,427	1,031,555	2,876,982
2017	1,930,714	950,268	2,880,982
2018	2,011,461	865,021	2,876,482
2019	2,097,682	776,050	2,873,732
2020-2024	11,797,425	2,408,291	14,205,716
2025-2026	<u>4,601,741</u>	<u>285,792</u>	<u>4,887,533</u>
	<u>\$26,055,036</u>	<u>\$ 7,429,372</u>	<u>\$33,484,408</u>

The Authority is in compliance with the covenants as to rates, fees, rentals and charges of the Bond Order, authorizing the issuance of the Water Revenue Bonds, Series 2005 and 2008. The 2005 Bond Order requires the debt service coverage ratio to be no less than 120%, while the 2008 and 2010 Bond Orders require the ratio to be no less than 125%.

The debt service coverage ratio calculation for the year ended June 30, 2014, is as follows:

Operating revenues	\$6,412,354
Operating expenses*	<u>2,319,864</u>
Operating income	4,092,490
Nonoperating revenues (expenses)**	<u>26</u>
Income available for debt service	4,092,516
Debt service, principal and interest paid (Revenue bonds only)	2,926,175
Debt service coverage ratio	140%

\* Per rate covenants, this does not include the depreciation expense of \$1,335,042.

\*\* Per rate covenants, this does not include revenue bond interest paid of \$1,214,997.

The Authority has pledged future water customer revenues, net of specified operating expenses, to repay \$26,055,036 in water system revenue bonds issued in 2000 and defeased in 2005 and new bonds issued in 2008 and 2010. The bonds are payable solely from water customer net revenues and are payable through 2026. Annual principal and interest payments on the bonds are expected to require approximately 46 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$33,484,408. Principal and interest paid for the current year and total customer net revenues were \$2,926,175 and \$4,468,006, respectively.

#### Long-Term Obligation Activity

The following is a summary of changes in the Authority's long-term obligations for the year ended June 30, 2014.

	June 30, 2013	Additions	Retirements	June 30, 2014	Current Portion
Water System Revenue Bonds					
Series 2005	\$ 21,140,000	\$ -	\$ 1,215,000	\$ 19,925,000	\$ 1,260,000
Series 2008	1,530,946	-	128,642	1,402,304	133,543
Series 2010	5,095,268	-	367,536	4,727,732	377,043
Unamortized bond premium	402,375	-	33,415	368,960	-
Accrued vacation	43,650	-	-	43,650	-
	<u>\$ 28,212,239</u>	<u>\$ -</u>	<u>\$ 1,744,593</u>	<u>\$ 26,467,646</u>	<u>\$ 1,770,586</u>

Accrued vacation is accounted for on the LIFO basis, assuming that employees are taking leave time as it is earned.

### 3. Risk Management

The Authority 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 Authority is insured through a commercial insurance carrier. The Authority has general liability of \$1 million per occurrence with \$3 million in aggregate limit, commercial excess liability of \$2 million per occurrence and in aggregate limit, public officials and management liability of \$1 million per wrongful act and \$3 million in aggregate limit, auto liability coverage of \$1 million combined single limit, property coverage up to the total insurance values of the property, and workers' compensation coverage up to statutory limits. Employee health insurance is provided through Blue Cross/Blue Shield of North Carolina with a high-deductible Health Savings Account plan.

The Authority carries flood insurance coverage in amounts of \$1 million per occurrence with a \$25,000 deductible.

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 fiscal years.

In accordance with G.S. 159-29, the Authority's employees that have access to \$100 or more at any given time of the Authority's funds are performance bonded through a commercial surety bond. Coverage in the amount of \$50,000 has been secured to provide against employee theft, forgery or alteration, inside and outside the premises – theft of money and securities. Additional coverage in the amount of \$25,000 is in place for computer fraud, funds transfer fraud and money orders. The finance officer is individually bonded for \$50,000.

4. Sale of Finished Water Agreement

On July 7, 2008, the Authority entered into an agreement with Polk County (Polk) and the Inman-Campobello Water District (ICWD) to furnish water to both systems. As part of this agreement, the Authority constructed a new water line which allows for the Polk system to connect to the Authority's system. The ICWD system will obtain its water through connections to the Polk system. The cost of the new waterline was \$3,123,970 and was funded through the issuance of the 2008 series Revenue Bonds and capital contributions from both ICWD and Rutherford County. Under the terms of the agreement, the Authority will furnish to Polk/ICWD a maximum of 4 million gallons per day for the first two years of the agreement and 4.1 million gallons per day for years three to fifteen.

5. Sale of Cellular Tower Lease Rights

The Authority entered into an agreement on June 20, 2014 with Unison Site Management, LLC to sale the Authority's rights in cell tower lease agreements with mobile providers. The purchase price is \$712,376. As a part of the agreement, the LLC is holding back \$293,685 of the purchase price as it negotiates with one of the cell providers. After reducing the purchase price by rent proration, other selling expenses and the holdback, the amount paid to the Authority in fiscal year 2014 was \$385,987. The agreement provides that if the LLC's negotiation with the remaining provider is not resolved within one year of the date of the agreement, the documents will be rewritten to exclude the rights to this particular lease. At the date of these financial statements, the LLC's negotiation with the mobile provider is still in process. Therefore, the Authority has not recognized the holdback amount as revenue from the sale in these financial statements.

**Note 3 - Stewardship, Compliance, and Accountability**

Excess of Expenditures over Appropriations

Actual expenditures exceeded budget appropriations in several of the operating expense line items. These line item overages were managed with positive variances in other expense areas. In the future, the Authority board will review these variances and make the necessary budget amendments.

## **INDIVIDUAL FUND SCHEDULE**

**Broad River Water Authority**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Operating revenue:</b>			
Water service	\$ 5,995,000	\$ 6,019,062	\$ 24,062
Tap and connection fees	77,200	98,540	21,340
Water testing fees	6,000	5,300	(700)
Late fees	137,200	149,023	11,823
Other operating	174,400	150,629	(23,771)
Total operating revenue	6,389,800	6,422,554	32,754
<b>Non-operating revenue:</b>			
Capital contributions	64,100	-	(64,100)
Sale of lease rights	-	385,982	385,982
Interest earned	-	26	26
Total non-operating revenue	64,100	386,008	321,908
<b>Total revenue</b>	<b>6,453,900</b>	<b>6,808,562</b>	<b>354,662</b>
<b>Operating expenses:</b>			
Salaries and employee benefits	1,292,200	1,260,999	31,201
Professional services	81,100	84,752	(3,652)
Departmental supplies and expenses	345,000	354,337	(9,337)
Telephone	22,000	24,567	(2,567)
Travel and training	8,000	7,702	298
Repairs and maintenance	39,600	13,051	26,549
Vehicle maintenance	65,000	67,943	(2,943)
Licenses and franchise fees	8,000	7,858	142
Utilities	420,000	347,475	72,525
Contracted services	142,900	102,617	40,283
Principal retirement	1,937,800	1,711,178	226,622
Interest expense	1,168,000	1,214,997	(46,997)
Capital outlay	1,970,300	2,513,038	(542,738)
Other operating	18,000	48,563	(30,563)
Total operating expenses	7,517,900	7,759,077	(241,177)
<b>Other financing sources/(uses):</b>			
Transfer from capital reserve	1,064,000	-	(1,064,000)
	1,064,000	-	(1,064,000)
<b>Revenues over expenses and other financing uses</b>	<b>\$ -</b>	<b>\$ (950,515)</b>	<b>\$ (950,515)</b>
<b>Reconciliation from budgetary basis (modified accrual basis) to full accrual:</b>			
Revenues over expenses		\$ (950,515)	
Reconciling items:			
Depreciation expense		(1,335,042)	
Acquisition of property and equipment		2,513,038	
Debt service principal payments		1,711,178	
Change in net position		\$ 1,938,659	