

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



**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2013**

# **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, 2013 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 and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller 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 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.

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TELEPHONE: (828) 251-2846 ♦ FAX: (828) 251-1144

## ***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, 2013 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 4–9 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.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013 on our consideration of the Broad River Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Broad River Water Authority's internal control over financial reporting and compliance.

*Burleson & Earley, P.A.*  
Certified Public Accountants  
October 30, 2013

## 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, 2013. 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

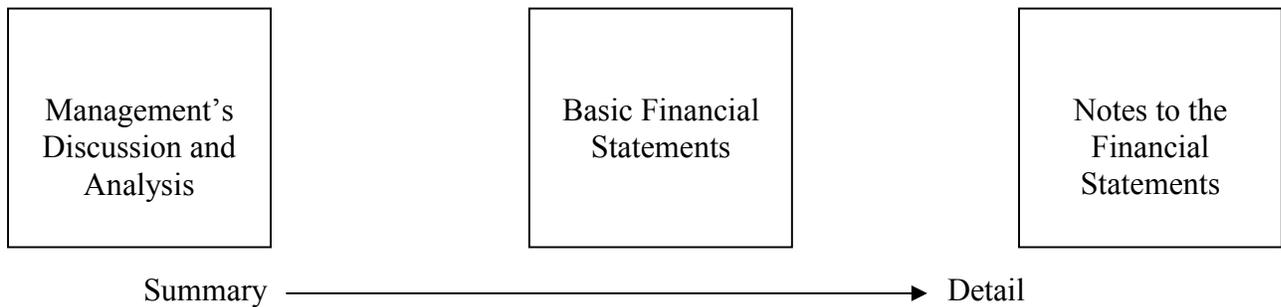
- The assets and deferred outflows of resources of Broad River Water Authority exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$12,774,326 (*net position*).
- The Authority's total net position increased by \$1,951,944, primarily due to increased operating 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>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Assets</b>				
Current Assets	\$ 6,740,659	\$ 6,206,153	\$ 534,506	9%
Restricted Assets	197,620	170,142	27,478	16%
Capital Assets	33,416,337	33,648,862	(232,525)	-1%
Deferred Outflows of Resources	1,028,735	2,164,626	(1,135,891)	-52%
	<u>\$ 41,383,351</u>	<u>\$ 42,189,783</u>	<u>\$ (806,432)</u>	<u>-28%</u>
<b>Liabilities</b>				
Current Liabilities	\$ 2,107,965	\$ 2,048,909	\$ 59,056	3%
Long-term Liabilities	26,501,060	28,268,032	(1,766,972)	-6%
Total Liabilities	<u>28,609,025</u>	<u>30,316,941</u>	<u>\$ (1,707,916)</u>	<u>-3%</u>
<b>Net Position</b>				
Investment in Capital Assets	5,247,748	3,814,459	1,433,289	38%
Restricted for Debt Retirement	197,620	170,142	27,478	16%
Unrestricted	7,328,958	7,888,241	(559,283)	-7%
Total Net Position	<u>12,774,326</u>	<u>11,872,842</u>	<u>901,484</u>	<u>46%</u>
	<u>\$ 41,383,351</u>	<u>\$ 42,189,783</u>	<u>\$ (806,432)</u>	<u>43%</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 \$12,774,326 at June 30, 2013, a \$1,951,944 increase from June 30, 2012. 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.

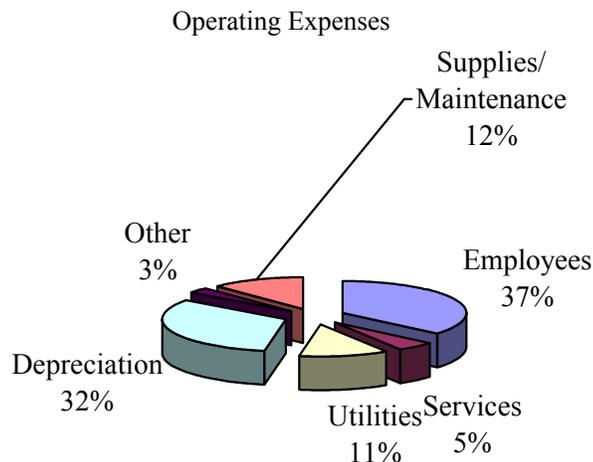
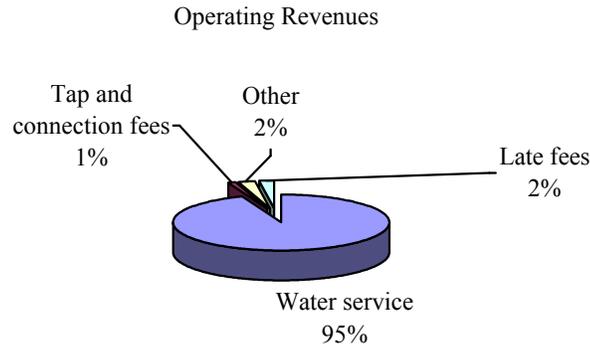
Several particular aspects of the Authority's financial operations positively influenced total net position:

- Capital contributions of \$371,431 for the expansions to the Airport Road/Oscar Justice lines; and renovations for the Railroad Avenue water tank rehabilitation.
- 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>2013</u>	<u>2012</u>	<u>\$ Change</u>	<u>% Change</u>
Operating Revenues	\$ 6,233,571	\$ 6,384,861	\$ (151,290)	-2%
Operating Expenses	3,362,163	3,354,695	7,468	0%
Operating Income Before Nonoperating Revenues and Expenses	2,871,408	3,030,166	(158,758)	-5%
Nonoperating Revenues and Expenses, net	(1,290,895)	(1,490,499)	199,604	13%
Capital Contributions	371,431	563,444	(192,013)	-34%
Increase in Net Position	1,951,944	2,103,111	(151,167)	-7%
Beginning Net Position, as originally presented	11,872,842	9,769,731	2,103,111	22%
Restatement of bond costs, net of amortization	(1,050,460)	-	(1,050,460)	-100%
Beginning Net Position, as restated	10,822,382	9,769,731	1,052,651	11%
Ending Net Position	\$ 12,774,326	\$ 11,872,842	\$ 901,484	8%

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>2013</u></b>	<b><u>2012</u></b>	<b><u>\$ Change</u></b>	<b><u>% Change</u></b>
Cash Flows from Operating Activities	\$ 3,971,816	\$ 4,023,400	\$ (51,584)	-1%
Cash Flows from Capital and Related Financing Activities	(3,378,939)	(3,562,034)	183,095	-5%
Cash Flows from Investing Activities	77	302	(225)	-75%
Net Increase (Decrease) in Cash and Cash Equivalents	592,954	461,667	131,286	-28%
Cash and Cash Equivalents, beginning of year	5,002,689	4,541,022	461,667	10%
Cash and Cash Equivalents, end of year	<u>\$ 5,595,643</u>	<u>\$ 5,002,689</u>	<u>\$ 592,953</u>	<u>12%</u>

## CAPITAL ASSET AND DEBT ADMINISTRATION

### **Capital Assets**

During fiscal year 2013, the Authority expended approximately \$858,000 on capital activities. This included approximately \$446,000 for line extensions, \$342,000 for the water tank rehabilitation and the balance for renovations at the administrative office, vehicles and equipment.

Acquisitions are funded using a variety of techniques, including State reimbursements, county grants, revenue bond issuances and operating revenues.

## SUMMARY OF CAPITAL ASSETS

	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>\$ Change</u></b>	<b><u>% Change</u></b>
Land and improvements	\$ 453,907	\$ 453,907	\$ -	0%
Construction in progress	89,456	56,593	32,863	58%
Building and improvements	22,014,291	21,673,765	340,526	2%
System lines	20,890,805	20,444,879	445,926	2%
Vehicles	272,619	270,350	2,269	1%
Equipment	662,427	625,890	36,537	6%
	<u>44,383,505</u>	<u>43,525,384</u>	<u>858,121</u>	<u>2%</u>
Accumulated depreciation	<u>(10,967,168)</u>	<u>(9,876,522)</u>	<u>(1,090,646)</u>	<u>11%</u>
Capital assets, net	<u>\$ 33,416,337</u>	<u>\$ 33,648,862</u>	<u>\$ (232,525)</u>	<u>-1%</u>

**Long-term Debt**

As of June 30, 2013, the Authority had total debt outstanding of \$28,168,589.

**SUMMARY OF OUTSTANDING DEBT**

	<u>2013</u>	<u>2012</u>
Water system revenue bonds	\$ 27,766,214	\$ 29,393,614
Add: unamortized premium	402,375	435,790
Net debt	<u>\$ 28,168,589</u>	<u>\$ 29,829,404</u>

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

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 equated to a decrease of industrial sales in 2001 of \$1.28 million to sales in 2011 of \$361,000.

To 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 have generated over \$4.7 million in direct grants for waterline expansion over the last 12 years. These funds, along with over \$2.7 million of the Authority’s funds, allowed for the construction of more than 80 miles of waterline, and the growth of our customer base by nearly 1,000 accounts (19% growth).

In 2000, the average production of the water treatment plant was 5 MGD. In 2008, annual production dipped to an average of 2.74 MGD. 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 2.74 MGD, and generated total revenue of \$6.5 million.

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. While steady rate increases have been implemented by the Authority, the average water bill (assuming usage of 5,000 gallons) is currently \$44.53. This is comparable with other local utilities (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.

The success of the Authority's growth, strategies, and partnerships are evident in the data below. The customer base has expanded, consumption/production has rebounded and revenues have diversified and greatly increased.

**TREND SHOWING REDUCED RELIANCE ON INDUSTRIAL CUSTOMERS AND INCREASED CONTRIBUTION OF RESALE/ BULK CUSTOMERS**

<u>Type of Customer</u> Year	<u>Number of Accounts</u>		<u>Consumption (millions of gals.)</u>		<u>Water Sales Revenue (\$ 000)</u>	
	2002 <sup>(1)</sup>	FY 2013	2002	FY 2013	2002	FY 2013
Residential	4,956	5,873	282	276	\$ 1,677	\$ 2,806
Commercial/ Other	524	603	114	98	\$ 518	\$ 744
Industrial	39	34	871	78	\$ 1,433	\$ 360
Resale/ Bulk	1	2 <sup>(2)</sup>	283	1,357	\$ 407	\$ 1,928
Totals	5,521	6,512	1,550	1,809	\$ 4,036	\$ 5,848

<sup>(1)</sup> Calendar year 2002 is the first year of complete available data for BRWA. Duke Power maintained operations in calendar yr 2000.

<sup>(2)</sup> Resale accounts: Grassy Pond Water Company represents 3,850 accounts, all residential/ commercial; and Polk/ ICWD represents 12,000 accounts, 95% residential/commercial.

With stable revenues and higher production requirements, the Authority has been able to increase their focus towards modernizing and replacing aging infrastructure. The Water Treatment Plant, which was originally built 1982, underwent a \$7 million rehabilitation in FY 2011. For FY 2012, the Authority completed a rehabilitation of our 750,000 gallon elevated storage tank on Railroad Avenue with the assistance of a grant from the EPA. The Authority also replaced \$130,000 of aging waterlines, hydrants and valves in our distribution system.

During FY 2013, the Authority completed a successful new waterline installation project to the Rutherford County Airport. This project involved nearly 8,000 linear feet of waterline in an area served by private wells. The project was partially funded by Rutherford County.

**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	2013
<b>Assets</b>	
<b>Current assets:</b>	
<b>Unrestricted assets:</b>	
Cash and cash equivalents	\$ 5,398,023
Customer accounts receivable - net	1,102,577
Grants receivable	193,438
Other receivables - net	46,621
Total unrestricted assets	6,740,659
<b>Restricted assets:</b>	
Cash and cash equivalents	197,620
Total current assets	6,938,279
<b>Noncurrent assets:</b>	
<b>Capital assets:</b>	
Land and other non-depreciable assets	532,568
Capital assets, net of depreciation	32,883,769
Total capital assets	33,416,337
Total assets	40,354,616
<b>Deferred outflows of resources</b>	
Deferred charge on refunding	1,028,735
<b>Liabilities</b>	
<b>Current liabilities:</b>	
<b>Payable from unrestricted assets:</b>	
Current portion long term debt	1,711,179
Accounts payable	154,465
Accrued salaries and related payables	24,819
Customer deposits and overpayments	119,985
Accrued interest	97,517
Total current liabilities	2,107,965
<b>Noncurrent liabilities:</b>	
Accrued vacation payable	43,650
Noncurrent portion long term debt	26,457,410
Total noncurrent liabilities	26,501,060
Total liabilities	28,609,025
<b>Deferred inflows of resources</b>	
	-
<b>Net position:</b>	
Net investment in capital assets	5,247,748
Restricted for debt retirement	197,620
Unrestricted	7,328,958
Total net position	\$ 12,774,326

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>2013</b>
<b>Operating revenue:</b>	
Water service	\$ 5,872,445
Tap and connection fees	74,871
Water testing fees	8,365
Late fees	135,213
Other operating	142,677
Total revenue	6,233,571
 <b>Operating expenses:</b>	
Salaries and employee benefits	1,217,787
Professional services	72,191
Departmental supplies and expenses	312,855
Telephone	19,930
Travel and training	13,272
Repairs and maintenance	31,345
Vehicle maintenance	63,180
Licenses and franchise fees	8,249
Utilities	384,857
Contracted services	96,251
Depreciation	1,090,645
Other operating	51,601
Total expenses	3,362,163
Operating income	2,871,408
 <b>Nonoperating revenues (expenses):</b>	
Investment earnings	77
Interest on bond indebtedness	(1,290,972)
Total nonoperating revenues (expenses)	(1,290,895)
Income before capital contributions	1,580,513
<b>Capital contributions</b>	371,431
<b>Change in net position</b>	1,951,944
<b>Total net position, beginning of year, as restated</b>	10,822,382
<b>Total net position, end of year</b>	\$12,774,326

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>2013</b>
<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 6,293,464
Cash paid for goods and services	(1,108,020)
Cash paid to employees for services	(1,213,628)
Net cash provided by operating activities	3,971,816
 <b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	(863,119)
Capital contributions	360,130
Interest payments on debt maturities	(1,248,550)
Principal payments on debt maturities	(1,627,400)
Net cash used by capital and financing activities	(3,378,939)
 <b>Cash flows from investing activities:</b>	
Interest on investments	77
Net increase in cash and cash equivalents	592,954
Cash and cash equivalents, beginning of year	5,002,689
Cash and cash equivalents, end of year	\$ 5,595,643
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 2,871,408
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,090,645
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	42,271
Increase (decrease) in accounts payable	(54,289)
Increase (decrease) in customer deposits	17,622
Increase (decrease) in accrued salaries and related payable:	4,159
Total adjustments	1,100,408
Net cash provided by operating activities	\$ 3,971,816

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, 2013**

**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, 2013, 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, 2013.

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, 2013 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, 2013, the Authority's deposits had a carrying amount of \$5,398,023 and a bank balance of \$5,461,460. Of the bank balance, \$250,000 was covered by Federal Depository Insurance and \$5,211,460 was covered by collateral held under the Pooling Method.

At June 30, 2013, the Authority had \$197,620 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, 2013, the Authority had \$1,040 in petty cash.

2. Accounts Receivable

The accounts receivable consists of the following at June 30, 2013:

Customers billed	\$979,456
Unbilled revenues	296,148
Less: allowance for doubtful accounts	<u>(173,027)</u>
Total accounts receivable	<u>\$ 1,102,577</u>

3. Capital Assets

The capital assets of the Broad River Water Authority at June 30, 2013 consist of the following:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 56,593	\$ 64,056	\$ (31,193)	\$ 89,456
Land	443,112			443,112
Total capital assets not being depreciated	<u>499,705</u>	<u>64,056</u>	<u>(31,193)</u>	<u>532,568</u>
Capital assets being depreciated:				
Land improvements	10,795			10,795
Building and improvements	21,673,765	340,526		22,014,291
System lines	20,444,879	445,926		20,890,805
Vehicles	270,350	2,269		272,619
Computer Equipment	332,139			332,139
Equipment	293,751	36,537		330,288
Total capital assets being depreciated	<u>43,025,679</u>	<u>825,258</u>	<u>-</u>	<u>43,850,937</u>
Less accumulated depreciation for:				
Land improvements	1,970	720		2,690
Building and improvements	6,875,098	748,761		7,623,859
System lines	2,346,509	265,166		2,611,675
Vehicles	139,581	40,767		180,348
Computer Equipment	331,191	95		331,286
Equipment	182,173	35,137		217,310
Total accumulated depreciation	<u>9,876,522</u>	<u>1,090,646</u>	<u>-</u>	<u>10,967,168</u>
Total capital assets being depreciated, net	<u>33,149,157</u>			<u>32,883,769</u>
Business-type activities capital assets, net	<u>\$ 33,648,862</u>			<u>\$ 33,416,337</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. At June 30, 2013, the restricted cash balance was \$197,620.

5. Deferred Outflows of Resources

Deferred outflows of resources consist of the following at June 30, 2013:

Deferred charge on 2005 advanced refunding \$ 1,028,735

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 6.91% 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, 2013, 2012 and 2011 were \$62,220, \$64,836, and \$60,858, 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 \$46,781, \$45,414 and \$45,332 for the years ended June 30, 2013, 2012 and 2011, 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, 2013, \$22,955,000 of the 2000 Series bonds are

considered to be defeased. These bonds are recorded including an unamortized premium of \$402,375.

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, 2013, the cash balance from this issue is \$197,620 and is presented as restricted in these financial statements.

At June 30, 2013, the following amounts are outstanding for these bond issues:

Series 2005	\$21,140,000
Series 2008	1,530,946
Series 2010	<u>5,095,268</u>
	<u>\$27,766,214</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>
2014	\$ 1,711,179	\$ 1,167,847	\$ 2,879,026
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
2019-2023	11,480,638	2,905,310	14,385,948
2024-2026	<u>7,016,209</u>	<u>564,824</u>	<u>7,581,035</u>
	<u>\$27,766,214</u>	<u>\$8,597,220</u>	<u>\$36,363,436</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, 2013, is as follows:

Operating revenues	\$6,233,571
Operating expenses*	<u>2,271,517</u>
Operating income	3,962,053
Nonoperating revenues (expenses)**	<u>77</u>
Income available for debt service	3,962,130
Debt service, principal and interest paid (Revenue bonds only)	2,918,372
Debt service coverage ratio	136%

\* Per rate covenants, this does not include the depreciation expense of \$1,090,645.

\*\* Per rate covenants, this does not include revenue bond interest paid of \$1,290,972.

The Authority has pledged future water customer revenues, net of specified operating expenses, to repay \$27,766,214 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 \$36,363,436. Principal and interest paid for the current year and total customer net revenues were \$2,918,372 and \$3,962,053, 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, 2013.

	<b>June 30, 2012</b>	<b>Additions</b>	<b>Retirements</b>	<b>June 30, 2013</b>	<b>Current Portion</b>
Water System Revenue Bonds					
Series 2005	\$ 22,310,000	\$ -	\$ 1,170,000	\$ 21,140,000	\$ 1,215,000
Series 2008	1,654,866	-	123,920	1,530,946	128,642
Series 2010	5,428,747	-	333,479	5,095,268	367,537
Unamortized bond premium	435,790	-	33,415	402,375	-
Accrued vacation	43,650	-	-	43,650	-
	<u>\$ 29,873,053</u>	<u>\$ -</u>	<u>\$ 1,660,814</u>	<u>\$ 28,212,239</u>	<u>\$ 1,711,179</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 participates in two self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Authority obtains general liability of \$3 million per occurrence, auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, workers’ compensation coverage up to statutory limits, and employee health from United Health Care coverage with no lifetime limit and in-network providers. 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 Authority does not carry flood insurance.

The Authority 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 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. Construction/Purchase Commitments

At June 30, 2013, the Authority has outstanding obligations related to construction projects totaling \$473,680. The Authority has an outstanding obligation related to the purchase of equipment in the amount of \$274,875.

**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.

**Note 4 – Change in Accounting Principles/Restatement**

The Authority implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously Reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Fund Net Position. Items on the Statement of Fund Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources. Bond issuance costs that were previously deferred and amortized have been expensed against beginning net position as follows:

Beginning net position, as originally stated	<u>\$ 11,872,842</u>
Less:	
Bond costs previously deferred	1,841,988
Accumulated amortization related to bond costs	<u>(791,528)</u>
	<u>1,050,460</u>
Beginning net position as restated	<u><u>\$ 10,822,382</u></u>

**INDIVIDUAL FUND SCHEDULES SECTION**

**Broad River Water Authority**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**For the Fiscal Year Ended June 30, 2013**

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Operating revenue:</b>			
Water service	\$ 5,868,000	\$ 5,872,445	\$ 4,445
Tap and connection fees	80,600	74,871	(5,729)
Water testing fees	6,500	8,365	1,865
Late fees	134,300	135,213	913
Other operating	198,400	142,677	(55,723)
Total operating revenue	6,287,800	6,233,571	(54,229)
<b>Non-operating revenue:</b>			
Capital contributions	335,600	371,431	35,831
Interest earned	-	77	77
Total non-operating revenue	335,600	371,508	35,908
<b>Total revenue</b>	<b>6,623,400</b>	<b>6,605,079</b>	<b>(18,321)</b>
<b>Operating expenses:</b>			
Salaries and employee benefits	1,208,300	1,217,787	(9,487)
Professional services	56,300	72,191	(15,891)
Departmental supplies and expenses	300,900	312,855	(11,955)
Telephone	21,900	19,930	1,970
Travel and training	13,200	13,272	(72)
Repairs and maintenance	46,500	31,345	15,155
Vehicle maintenance	64,900	63,180	1,720
Licenses and franchise fees	8,100	8,249	(149)
Utilities	386,800	384,857	1,943
Contracted services	106,400	96,251	10,149
Principal retirement	1,631,500	1,627,400	4,100
Interest expense	1,253,400	1,290,972	(37,572)
Capital outlay	1,462,600	858,120	604,480
Other operating	79,500	51,601	27,899
Total operating expenses	6,640,300	6,048,010	592,290
<b>Other financing sources/(uses):</b>			
Transfer from capital reserve	16,900	-	(16,900)
	16,900	-	(16,900)
<b>Revenues over expenses and other financing uses</b>	<b>\$ -</b>	<b>\$ 557,069</b>	<b>\$ 557,069</b>
<b>Reconciliation from budgetary basis (modified accrual basis) to full accrual:</b>			
Revenues over expenses		\$ 557,069	
Reconciling items:			
Depreciation expense		(1,090,645)	
Acquisition of property and equipment		858,120	
Debt service principal payments		1,627,400	
Change in net position		\$ 1,951,944	

## **COMPLIANCE**

# BURLESON & EARLEY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

### **Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the business-type activity of the Broad River Water Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Broad River Water Authority's basic financial statements, and have issued our report thereon dated October 30, 2013.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Broad River Water Authority'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 Broad River Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Broad River Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

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

*Burlison & Earley, P.A.*

Certified Public Accountants

October 30, 2013