

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

**Financial Statements**

**June 30, 2016**



# Broad River Water Authority

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## **Independent Auditors' Report**

Board of Directors  
Broad River Water Authority  
Spindale, North Carolina

We have audited the accompanying financial statements of the Broad River Water Authority which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

### **Opinion**

In our opinion, 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, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 – 10 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions on pages 27 – 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Broad River Water Authority. The budgetary schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary schedule 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. In our opinion, based on our audit and the procedures performed as described above, the budgetary schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*David Killian CPA Group, P.A.*

Asheville, North Carolina  
September 26, 2016

## 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 its financial activities of the Authority for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative.

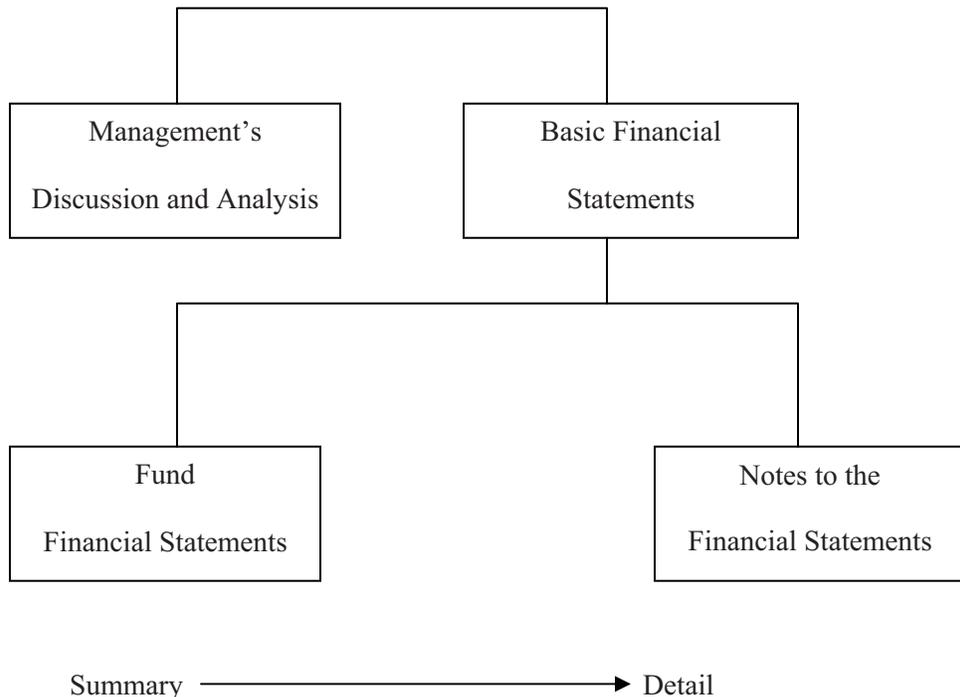
### Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$18,083,149 (*net position*). Of this amount \$7,458,790 may be used to meet the Authority's ongoing obligations to creditors and to pay for system improvements.
- The Authority's total net position increased by \$2,224,950, primarily due to the reduction of long-term liabilities (bond principal), along with a slight increase in operating revenues and decreased capital spending.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of two components (see Figure 1); 1) fund financial statements, and 2) notes to the financial statements. 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 the Authority.

**Figure 1 – Required Components of Annual Financial Report**



The Basic Financial Statements are prepared using the full accrual basis of accounting. They consist of 3 statements. The first is the Statement of 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 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 explain in detail some of the data contained in those statements and should be read in conjunction with the statements.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements begin on page 14 of this report.

#### AUTHORITY'S NET POSITION

**Table 1**

	<b>FY 2016</b>	<b>FY 2015</b>	<b>\$ Change</b>	<b>% Change</b>
<b>ASSETS</b>				
Current and other assets	\$ 8,133,166	\$ 6,779,732	\$ 1,353,434	20%
Capital assets, net	32,624,463	33,778,065	(1,153,602)	-3%
Total assets	<u>40,757,629</u>	<u>40,557,797</u>	<u>199,832</u>	0%
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>518,922</u>	<u>592,513</u>	<u>(73,591)</u>	-12%
<b>LIABILITIES</b>				
Long-term liabilities outstanding	20,746,052	22,808,909	(2,062,857)	-9%
Other liabilities	2,396,132	2,235,896	160,236	7%
Total liabilities	<u>23,142,184</u>	<u>25,044,805</u>	<u>(1,902,621)</u>	-8%
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>51,218</u>	<u>267,306</u>	<u>(216,088)</u>	-81%
<b>NET POSITION</b>				
Net investment in capital assets	10,624,359	9,231,654	1,392,705	15%
Unrestricted	<u>7,458,790</u>	<u>6,606,545</u>	<u>852,245</u>	13%
Total net position	<u>\$ 18,083,149</u>	<u>\$ 15,838,199</u>	<u>\$ 2,244,950</u>	14%

As noted earlier, net position may serve over time as one useful indicator of an entity's financial condition. The assets and deferred outflows of the Authority exceeded liabilities and deferred inflows by \$18,083,149 at June 30, 2016. The Authority's net position increased by \$2,244,950 for the fiscal year ended June 30, 2016. However, the largest portion (approximately 59%) reflects the Authority's net investment in capital assets (e.g. land, buildings, treatment facility, water and sewer lines, equipment, etc.). The Authority uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The remaining balance of \$7,458,790 is unrestricted.

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

- A 4% increase in operating revenue consistent with rate increases.
- A 1% decrease in operating expenses, which is the net result of a 3% increase in depreciation expense and a 4% decrease in other operating costs such as salaries and supplies.

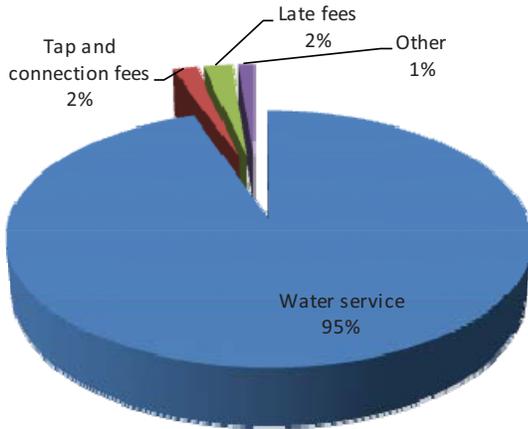
## AUTHORITY'S CHANGES IN NET POSITION

**Table 2**

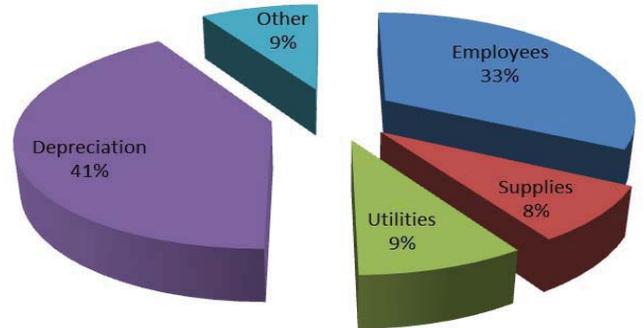
	<u>FY 2016</u>	<u>FY 2015</u>	<u>\$ Change</u>	<u>% Change</u>
<b>OPERATING REVENUES</b>				
Charges for services, net	\$ 6,582,608	\$ 6,194,172	\$ 388,436	6%
Other operating revenues	363,499	477,070	(113,571)	-24%
Total operating revenues	<u>6,946,107</u>	<u>6,671,242</u>	<u>274,865</u>	4%
<b>OPERATING EXPENSES</b>				
Operations	2,375,537	2,478,574	(103,037)	-4%
Depreciation	<u>1,664,773</u>	<u>1,614,267</u>	<u>50,506</u>	3%
Total operating expenses	<u>4,040,310</u>	<u>4,092,841</u>	<u>(52,531)</u>	-1%
Operating income	<u>2,905,797</u>	<u>2,578,401</u>	<u>327,396</u>	13%
<b>NON-OPERATING REVENUES (EXPENSES)</b>	<u>(660,847)</u>	<u>(1,300,290)</u>	<u>639,443</u>	-49%
Change in net position	2,244,950	1,278,111	966,839	76%
Total net position, beginning, restated	<u>15,838,199</u>	<u>14,560,088</u>	<u>1,278,111</u>	9%
Total net position, end of year	<u>\$ 18,083,149</u>	<u>\$ 15,838,199</u>	<u>\$ 2,244,950</u>	14%

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.

## Operating Revenues



## Operating Expenses



## 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.

	<u>FY 2016</u>	<u>FY 2015</u>	<u>\$ Change</u>	<u>% Change</u>
Cash provided (used) by:				
Operating activities	\$ 4,559,855	\$ 4,220,377	\$ 339,478	8%
Capital and related financing activities	(3,152,106)	(3,616,727)	464,621	-13%
Investing activities	<u>500</u>	<u>40</u>	<u>460</u>	1150%
Net increase in cash and cash equivalents	1,408,249	603,690	804,559	133%
Cash and cash equivalents, beginning of year	<u>5,550,460</u>	<u>4,946,770</u>	<u>603,690</u>	12%
Cash and cash equivalents, end of year	<u>\$ 6,958,709</u>	<u>\$ 5,550,460</u>	<u>\$ 1,408,249</u>	25%

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The Authority's investment in capital assets as of June 30, 2016, totals \$32,624,463 (net of accumulated depreciation). During fiscal year 2016, the Authority expended approximately \$400,000 on capital activities. This included approximately \$184,000 for equipment replacement, \$78,000 on rehabilitation of existing waterlines, hydrants and valves, \$68,000 on land

improvements for a new distribution warehouse, \$50,000 for new waterline extensions, and other purchases.

Acquisitions for the current year were funded from operating revenue.

	<u>FY 2016</u>	<u>FY 2015</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 443,112	\$ 443,112	\$ -	0%
Construction in progress	148,548	26,295	122,253	1%
Building and improvements	12,407,240	13,082,229	(674,989)	-5%
System lines	17,923,569	18,058,533	(134,964)	-1%
Vehicles	65,826	102,333	(36,507)	-36%
Equipment	1,636,167	2,065,563	(429,396)	-21%
Capital assets, net	<u>\$ 32,624,463</u>	<u>\$ 33,778,065</u>	<u>\$ (1,153,602)</u>	<u>-3%</u>

Additional information on the Authority's capital assets can be found in Note 2 of the Basic Financial Statements.

#### **Long-term Debt**

As of June 30, 2016, the Authority had total debt outstanding of \$22,449,304.

	<u>FY 2016</u>	<u>FY 2015</u>	<u>\$ Change</u>	<u>% Change</u>
Water system revenue bonds	\$ 20,504,022	\$ 22,284,449	\$ (1,780,427)	-8%
Add: unamortized premium	1,945,282	2,261,962	(316,680)	-14%
	22,449,304	24,546,411	(2,097,107)	-9%
Less: current portion	(1,780,714)	(1,780,427)	(287)	0%
Long-term debt, net	<u>\$ 20,668,590</u>	<u>\$ 22,765,984</u>	<u>\$ (2,097,394)</u>	<u>-9%</u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET 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 \$48.14. 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 2.95 MGD, and generated total revenue of \$11.4 million. At fiscal year-end, there were approximately 150 active customer accounts in Polk County, and approximately 12,000 active accounts for ICWD.

**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 2016</b>	
Residential	282	18%	290	35%	278	13%
Commercial	114	7%	134	16%	90	4%
Industrial	871	56%	139	17%	71	3%
Bulk	283 <sup>1</sup>	18%	257	31%	1675 <sup>2</sup>	79%
<b>TOTAL</b>	<b>1550</b>		<b>820</b>		<b>2114</b>	
<b>Annual Revenue (\$ 000)</b>						
	<b>2002</b>		<b>FY 2007</b>		<b>FY 2016</b>	
Residential	\$1,677	42%	\$2,235	59%	\$3,075	46%
Commercial	\$518	13%	\$743	20%	\$786	12%
Industrial	\$1,433	36%	\$447	12%	\$421	6%
Bulk	\$407	10%	\$380	10%	\$2,355	35%
<b>TOTAL</b>	<b>\$4,035</b>		<b>\$3,805</b>		<b>\$6,637</b>	
<b>Annual Water Production</b>						
	<b>2002</b>		<b>FY 2007</b>		<b>FY 2016</b>	
Total MG	1619.38		1029.75		2197.43	
Ave Day (MGD)	4.44		2.82		6.02	

<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 12,150 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 2016 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 its focus towards modernizing and replacing aging infrastructure. Over the past five years, the most significant improvements have included the following: the Water Treatment Plant (which was originally built 1982) underwent a \$7 million modernization (FY 2011), a 750,000 gallon elevated tank was reconditioned both internally and externally, a system-wide meter replacement project began in FY 2014 with the installation of 6,600 new meters equipped with radio-read technology, 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, a 5 million gallon ground storage tank at Poors Ford was reconditioned, and several miles of aging distribution waterlines in residential areas have been replaced along with replacement of key hydrants and valves on an annual basis.

For FY 2016, we funded \$184,000 for equipment replacement (excavator, valves and actuators at WTP, meters), \$128,000 on rehabilitation of existing waterlines, hydrants and

valves plus new waterlines, and \$68,000 on land improvements for a new distribution warehouse.

- Technology Focus:

The meter replacement project completed in FY 2015 addressed the need to replace aging infrastructure in addition to implementing modern technology. As we continue to replace equipment, we consider the benefits of using the most up-to-date technology in all purchases.

- Capacity Focus:

The Water Treatment Plant currently has the permitted capacity of 8 MGD. The engineering design phase began in FY 2016 to increase the permitted capacity to 12 MGD in prepare for future needs and growth. Funds will be budgeted in FY 2017 to continue permitting and possibly for construction.

- 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 capital reserves as a measure of success and security. Due to increased revenues and decreased capital spending in FY 2016, over \$400,000 was added to our capital reserves. In future budgets, the goal is to increase or at least maintain these reserves at the present level. However, due to the Authority’s limited ability to incur additional debt, all expenditures for capital improvements will be funded through operating revenues and/or the reserves for at least the next 5 years.

## **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 General Manager, Broad River Water Authority, PO Box 37, Spindale, NC 28160.

# BROAD RIVER WATER AUTHORITY

## STATEMENT OF NET POSITION

June 30, 2016

### Assets

#### Current Assets:

Cash and cash equivalents	\$ 6,776,048
Water accounts receivable, net	1,037,758
Due from other governments	136,699
Restricted cash and cash equivalents	<u>182,661</u>
Total current assets	<u>8,133,166</u>

#### Noncurrent Assets:

Land and construction in progress	591,661
Other capital assets, net of depreciation	<u>32,032,802</u>
Total noncurrent assets	<u>32,624,463</u>

Total assets	<u>40,757,629</u>
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### Deferred Outflows of Resources

Pension deferrals	69,722
Deferred charge on refunding	<u>449,200</u>
Total deferred outflows of resources	<u>518,922</u>

### Liabilities

#### Current Liabilities:

Accounts payable	260,364
Accrued interest	75,253
Accrued salaries and related payables	35,397
Accrued vacation payable	61,743
Current portion of long-term debt	1,780,714
Payable from restricted assets:	
Customer deposits	<u>182,661</u>
Total current liabilities	<u>2,396,132</u>

#### Noncurrent Liabilities:

Net pension liability	77,462
Long-term debt, net of current portion	<u>20,668,590</u>
Total long-term liabilities	<u>20,746,052</u>

Total liabilities	<u>23,142,184</u>
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### Deferred Inflows of Resources

Pension deferrals	<u>51,218</u>
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### Net Position

Net investment in capital assets	10,624,359
Unrestricted	<u>7,458,790</u>
Total net position	<u>\$ 18,083,149</u>

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

## BROAD RIVER WATER AUTHORITY

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended June 30, 2016

Operating revenues:	
Water service, net	\$ 6,582,608
Tap and connection fees	127,381
Water testing fees	9,315
Late fees	148,696
Other operating revenues	<u>78,107</u>
Total operating revenues	<u>6,946,107</u>
Operating expenses:	
Salaries and employee benefits	1,312,538
Professional services	88,670
Departmental supplies and expenses	339,208
Telephone	16,474
Travel and training	5,644
Repairs and maintenance	43,703
Vehicle maintenance	45,187
Licenses and franchise fees	4,222
Utilities	361,099
Contracted services	63,276
Depreciation	1,664,773
Insurance	43,546
Other operating	<u>51,970</u>
Total operating expenses	<u>4,040,310</u>
Operating income	<u>2,905,797</u>
Non-operating revenues (expenses):	
Gain on disposal of assets	9,849
Grant revenue	24,823
Investment earnings	500
Interest	<u>(696,019)</u>
Total non-operating revenues (expenses)	<u>(660,847)</u>
Changes in net position	2,244,950
Total net position, beginning of year	<u>15,838,199</u>
Total net position, end of year	<u>\$ 18,083,149</u>

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

## BROAD RIVER WATER AUTHORITY

### STATEMENT OF CASH FLOWS

For the year ended June 30, 2016

#### Cash Flows from Operating Activities:

Cash received from customers	\$ 6,927,938
Cash paid to employees for services	(1,340,438)
Cash paid for goods and services	<u>(1,027,645)</u>
Net cash provided by operating activities	<u>4,559,855</u>

#### Cash Flows from Capital and Related

##### Financing Activities:

Acquisition and construction of capital assets	(513,369)
Proceeds from the sale of capital assets	12,048
Capital grants received	24,823
Interest payments on debt maturities	(895,181)
Principal payments on debt maturities	<u>(1,780,427)</u>
Net cash used by capital and related financing activities	<u>(3,152,106)</u>

#### Cash Flows from Investing Activities:

Interest income	<u>500</u>
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Net increase in cash and cash equivalents 1,408,249

Cash and cash equivalents, beginning of year 5,550,460

Cash and cash equivalents, end of year \$ 6,958,709

#### Reconciliation of Operating Income to Net Cash

##### Provided by Operating Activities:

Operating income	\$ 2,905,797
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,664,773
Changes in operating assets and liabilities:	
Increase in accounts receivable	(53,577)
Decrease in net pension asset	108,395
Increase in deferred outflows of resources - pensions	463
Increase in net pension liability	77,462
Decrease in deferred inflows of resources - pensions	(216,088)
Increase in accounts payable	51,761
Increase in accrued salaries and related payables	1,450
Increase in customer deposits	19,001
Increase in accrued vacation payable	<u>418</u>
Net cash provided by operating activities	<u><u>\$ 4,559,855</u></u>

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

# **BROAD RIVER WATER AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

June 30, 2016

### **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 confines 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***

The accounts of the Authority are organized and operated on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

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

**D. Measurement 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. Use of Estimates**

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

**F. Budget**

The Authority's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. However, for financial statement presentation, recorded revenues and expenditures are adjusted to the accrual basis. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. All amendments must be approved by the governing board and the board must adopt an interim budget that covers that time until the annual ordinance can be adopted. The budget and any amendments made during the year are submitted for approval to the governing board.

**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 deposit.

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 are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT- Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value.

**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. Restricted Assets**

Customer deposits held by the Authority before any services are supplied are restricted to the service for which the deposit was collected. Restricted cash at June 30, 2016 was \$182,661.

**4. Accounts Receivable**

Accounts receivable are carried at original billing amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a regular basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. With board approval, accounts are written off when deemed uncollectible. Revenue from charges for services are reported net of such write-offs. Recoveries of trade receivables previously written off are recorded as revenue when received.

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, 2016.

**5. Capital Assets**

The Authority's capital assets are recorded at original cost at the time of acquisition and depreciated over the useful lives on a straight line basis. Minimum capitalization cost is \$3,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. 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.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	10 - 69 years
Plant and distribution systems	25 - 100 years
Vehicles and equipment	5 - 10 years

**6. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial 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 two items that meet this criterion – contributions made to the pension plan in the 2016 fiscal year and deferred cost on debt refunding.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority has one item that meets this criterion – deferrals of pension expense that result from the implementation of GASB Statement 68.

### **7. 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. An expense and a liability for compensated absences and salary-related payments are recorded as the leave is earned. The District has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability.

Employees can accumulate an unlimited amount of sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Authority has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

### **8. Net Position**

Net position in proprietary fund financial statements is 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.

### **9. Pensions**

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

## **Note 2 – Detail Notes on All Funds**

### **A. Assets**

#### **1. Deposits**

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 name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority or the 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 has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2016, the Authority's deposits had a carrying amount of \$6,719,615 and a bank balance of \$6,781,295. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2016, the Authority's petty cash fund totaled \$1,040.

## **2. Investments**

At June 30, 2016, the Authority had \$238,054 invested with 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 interest rate and credit risk.

## **3. Accounts Receivable**

Accounts receivable at June 30, 2016, consisted of the following:

Customers billed	\$ 963,820
Unbilled revenues	200,100
Less: allowance for doubtful accounts	<u>(126,162)</u>
Accounts Receivable, net	<u>\$ 1,037,758</u>
Other Governmental Agencies	<u>\$ 136,699</u>

Revenues are recorded net of bad debt expense of approximately \$55,000 for the year ended June 30, 2016.

**4. Capital Assets**

Capital asset activity of the Authority for the year ended June 30, 2016 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Construction in progress	\$ 26,295	\$ 137,136	\$ 14,882	\$ 148,549
Land	443,112	-	-	443,112
Total capital assets not being depreciated	469,407	137,136	14,882	591,661
Capital assets being depreciated:				
Land improvements	108,031	83,671	-	191,702
Building and improvements	22,122,613	7,474	-	22,130,087
System lines	21,204,792	135,360	-	21,340,152
Vehicles	368,338	-	74,316	294,022
Equipment	3,421,361	164,611	-	3,585,972
Total capital assets being depreciated:	47,225,135	391,116	74,316	47,541,935
Less accumulated depreciation for:				
Land improvements	14,306	9,991	-	24,297
Building and improvements	9,134,109	756,143	-	9,890,252
System lines	3,146,259	270,324	-	3,416,583
Vehicles	266,005	34,308	72,117	228,196
Equipment	1,355,798	594,007	-	1,949,805
Total accumulated depreciation	13,916,477	1,664,773	72,117	15,509,133
Total capital assets being depreciated, net	33,308,658			32,032,802
Total capital assets, net	\$ 33,778,065			\$ 32,624,463

The Authority has active construction projects as of June 30, 2016. At year-end, the Authority's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Water treatment plant capacity expansion	\$ 10,690	\$ 223,710
Water treatment plant bulk water station	32,500	2,500
Distribution warehouse	7,375	3,325
Total	\$ 50,565	\$ 229,535

**Net Investment in Capital Assets**

Net position in capital assets as reported on the statement of net position is as follows:

Capital assets, net	\$ 32,624,463
Revenue bonds	(22,449,304)
Deferred charge on refunding	449,200
Capital asset, net of related debt	\$ 10,624,359

**B. Liabilities****1. Pension Plan Obligation**

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

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Authority employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Authority's contractually required contribution rate for the year ended June 30, 2016 was 6.90%, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Authority were \$69,722 for the year ended June 30, 2016.

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

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2016, the Authority reported a liability of \$77,462 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Authority's proportion was 0.01726%, which was a decrease of 0.00112% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the Authority recognized pension expense of \$39,954. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 18,208
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	22,053
Changes in proportion and differences between District contributions and proportionate share of contributions	-	10,957
District contributions subsequent to the measurement date	<u>69,722</u>	<u>-</u>
Total	<u>\$ 69,722</u>	<u>\$ 51,218</u>

\$69,722 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (28,734)
2018	(28,734)
2019	(28,698)
2020	34,948
2021	-
Thereafter	<u>-</u>
	<u>\$ (51,218)</u>

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

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

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

*Sensitivity of the Authority’s proportionate share of the net pension liability to changes in the discount rate.* The following presents the Authority’s proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Authority’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Authority's proportionate share of the net pension liability (asset)	\$ 540,153	\$ 77,462	\$ (312,345)

*Pension plan fiduciary net position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

**2. Supplemental Retirement Income Plan**

*Plan description.* On July 1, 2001, the Authority elected to participate in the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State’s CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income. 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.* 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 \$46,723, \$47,971, and \$46,997 for the years ended June 30, 2016, 2015 and 2014, respectively.

**3. Long-Term Obligations**Water System Revenue Bonds

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.

On June 22, 2015, the Authority issued \$16,665,000 Water System Refunding Revenue Bonds Series 2015. The proceeds of these bonds were used to redeem the 2005 series bonds in a current refunding. The 2000 and 2005 series bonds are considered defeased and are not included in the Authority's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$522,328, which was reported as a deferred outflow of resources and amortized over the life of the new debt. Amortization of the deferred outflow in the current year was \$73,127, resulting in a net deferred outflow of \$449,200 at June 30, 2016.

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>
2017	\$ 1,780,714	\$ 900,481	\$ 2,681,194
2018	1,841,460	835,134	2,676,595
2019	1,917,682	754,663	2,672,345
2020	2,004,392	670,702	2,675,094
2021	2,096,607	582,737	2,679,344
2022-2026	10,863,167	1,371,769	12,234,936
	<u>\$ 20,504,022</u>	<u>\$ 5,115,486</u>	<u>\$ 25,619,508</u>

The Authority is in compliance with covenants as to rates, fees, rentals and charges of the Bond Order, authorizing the issuance of the Water Revenue Bonds, Series 2015 and 2008. The 2015 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, 2016, is as follows:

Operating revenues	\$ 6,946,107
Operating expenses*	<u>2,405,813</u>
Operating income	4,540,294
Non-operating revenues (expenses)**	<u>37,371</u>
Income available for debt service	4,577,665
Debt service, principal and interest paid (Revenue bonds only)	2,675,608
Debt service coverage ratio	171%

\* Per rate covenants, operating revenues and expenses are calculated on a budgetary basis.

Accordingly, operating expenses do not include depreciation expense of \$1,664,773.

\*\* Per rate covenants, non-operating expenses do not include \$895,181 of revenue bond interest paid.

The Authority has pledged future water customer revenues, net of specified operating expenses, to

repay \$20,504,022 in water system revenue bonds. 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 65 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$25,619,508. Principal and interest paid for the current year and total customer net revenues were \$2,675,608 and \$4,540,294, 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, 2016.

	June 30, 2015	Additions	Reductions	June 30, 2016	Current Portion
Water System Revenue Bonds					
Bonds 2008	\$ 1,268,761	\$ -	\$ 138,631	\$ 1,130,130	\$ 143,913
Bonds 2010	4,350,688	-	386,796	3,963,892	396,801
Bonds 2015	16,665,000	-	1,255,000	15,410,000	1,240,000
Unamortized bond premium	2,261,962	-	316,680	1,945,282	-
Accrued vacation	61,325	65,324	64,906	61,743	61,743
	<u>\$ 24,607,736</u>	<u>\$ 65,324</u>	<u>\$ 2,162,013</u>	<u>\$ 22,511,047</u>	<u>\$ 1,842,457</u>

#### **4. 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. The finance officer is individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond of \$50,000.

#### **Note 3 – 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 obtains 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 agreed to furnish to Polk/ICWD a maximum of 4 million

gallons per day for the first two years of the agreement and up to 4.1 million gallons per day for years three to fifteen. During the year ended June 30, 2016, the agreement generated approximately \$1,863,000 in revenues for the Authority, which constitutes approximately 27% of the Authority's revenues.

**REQUIRED SUPPLEMENTAL FINANCIAL DATA**

**BROAD RIVER WATER AUTHORITY**

PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST THREE FISCAL YEARS \*

Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportionate share of the net pension liability (asset) (%)	0.01726%	0.01838%	1.82000%
Authority's proportion of the net pension liability (asset) (\$)	\$ 77,462	\$ (108,395)	\$ 219,380
Authority's covered-employee payroll	1,010,470	961,439	940,354
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.67%	( 11.27%)	23.33%
Plan fiduciary net position as a percentage of the total pension liability	98.09%	102.64%	94.35%

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

**BROAD RIVER WATER AUTHORITY**

**SCHEDULE OF CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST THREE FISCAL YEARS**

Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 69,722	\$ 70,185	\$ 66,483
Contribution in relation to the contractually required contribution	<u>69,722</u>	<u>70,185</u>	<u>66,483</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 1,010,470	\$ 961,439	\$ 940,354
Contributions as a percentage of covered- employee payroll	6.90%	7.30%	7.07%

**SUPPLEMENTAL FINANCIAL DATA**

**BROAD RIVER WATER AUTHORITY**

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)

For the year ended June 30, 2016

	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Revenues:			
Operating revenues:			
Water service, net	\$ 6,552,500	\$ 6,582,608	\$ 30,108
Tap and connection fees	116,500	127,381	10,881
Water testing fees	8,000	9,315	1,315
Late fees	145,000	148,696	3,696
Other operating revenues	<u>76,900</u>	<u>78,107</u>	<u>1,207</u>
Total operating revenues	<u>6,898,900</u>	<u>6,946,107</u>	<u>47,207</u>
Non-operating revenues:			
Grant revenue	30,000	24,823	(5,177)
Proceeds from disposal of assets	-	12,048	12,048
Interest income	<u>-</u>	<u>500</u>	<u>500</u>
Total non-operating revenues	<u>30,000</u>	<u>37,371</u>	<u>7,371</u>
Total revenues	<u>6,928,900</u>	<u>6,983,478</u>	<u>54,578</u>
Expenditures:			
Operating expenditures:			
Salaries and employee benefits	1,361,600	1,342,814	18,786
Professional services	115,000	88,670	26,330
Departmental supplies and expenses	372,500	339,208	33,292
Communications	18,000	16,474	1,526
Travel and training	8,000	5,644	2,356
Repairs and maintenance	58,300	43,703	14,597
Vehicle maintenance	50,000	45,187	4,813
Licenses and franchise fees	4,000	4,222	(222)
Utilities	370,000	361,099	8,901
Contracted services	69,600	63,276	6,324
Insurance	45,000	43,546	1,454
Other operating	<u>84,400</u>	<u>51,970</u>	<u>32,430</u>
Total operating expenditures	<u>2,556,400</u>	<u>2,405,813</u>	<u>150,587</u>
Capital outlay	<u>582,000</u>	<u>513,369</u>	<u>68,631</u>

**BROAD RIVER WATER AUTHORITY**

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)

For the year ended June 30, 2016

	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
Debt service:			
Principal retirement	1,780,700	1,780,427	273
Interest	<u>896,400</u>	<u>895,181</u>	<u>1,219</u>
Total debt service	2,677,100	2,675,608	1,492
 Contingency	<u>1,113,400</u>	<u>-</u>	<u>1,113,400</u>
 Total expenditures	<u>6,928,900</u>	<u>5,594,790</u>	<u>220,710</u>
 Revenues over expenditures	<u>\$ -</u>	1,388,688	<u>\$ 1,388,688</u>
 Reconciliation from budgetary basis (modified accrual) to full accrual basis: Reconciling items:			
Principal retirement of debt		1,780,427	
Increase in accrued vacation pay		(418)	
Increase in accrued interest		(44,392)	
Amortization of premium and deferred charges		243,553	
Capital outlay - items capitalized		513,369	
Adjusted basis of disposed assets		(2,198)	
Depreciation		(1,664,773)	
Decrease in net pension asset		(77,462)	
Increase in deferred outflows of resources - pensions		463	
Increase in net pension liability		(108,395)	
Decrease in deferred inflows of resources - pensions		<u>216,088</u>	
Total reconciling items		<u>856,262</u>	
 Change in net position		<u>\$ 2,244,950</u>	