

**BOARD OF THE METROPOLITAN SEWERAGE DISTRICT
MARCH 17, 2010**

1. Call to Order and Roll Call:

The regular monthly meeting of the Metropolitan Sewerage District Board was held in the Boardroom of MSD's Administration Building at 2:05 P.M., Wednesday, March 17, 2010. Chairman Aceto presided with the following members present: Bellamy, Bisette, Bryson, Creighton, Haner, Kelly, Root, Russell, Stanley, and Watts. Mr. VeHaun was absent.

Others present were: Thomas E. Hartye, General Manager, William Clarke, General Counsel, Gary McGill with McGill Associates, Joseph Martin with Woodfin Sanitary Water & Sewer District, Marcus Jones and Chuck McGrady with Henderson County, Stan Boyd, Ed Bradford, Jim Hemphill, Scott Powell, Barry Cook, Angel Banks, Julie Willingham and Sondra Honeycutt, MSD.

2. Inquiry as to Conflict of Interest:

Mr. Aceto asked if there were any conflicts of interest with the agenda items. No conflicts were reported.

3. Approval of Minutes of the February 17, 2010 Board Meeting:

Mr. Aceto asked if there were any objections to approving the Minutes of the February 17, 2010 Board Meeting as presented. With no objections, the Minutes were approved by acclamation.

4. Discussion and Adjustment of Agenda:

None

5. Informal Discussion and Public Comment:

Mr. Aceto welcomed Mr. Jones, Mr. McGrady, and Mr. Martin. Mr. Aceto presented a note from Ann Joyner thanking the District for remembering former Board Member Joe Joyner who represented Weaverville.

6. Report of General Manager:

Mr. Hartye announced that the annual Home Show will be held March 19-21 at the Civic Center and MSD plans to have a booth as it has for the last several years.

Mr. Hartye presented an article from the Asheville Citizen Times (ACT) on the French Broad River getting cleaner. He stated that this is due, in large part, to the efforts of the MSD over the years. In addition, he presented an ACT article on the City of Asheville's proposed water rate increase. He stated that the District will wait for third quarter numbers from the City before making projections on a sewer rate increase. Mr. Hartye also presented an article from Blue Ridge Now on the Cane Creek Water & Sewer District, which provides some of the options they are looking at and some history and background information on negotiating a new agreement with Cane Creek.

Mr. Hartye reported that the next Right of Way Committee meeting will be held March 24th at 9AM, and the next regular Board Meeting will be held April 21st at 2PM.

7. Consolidated Motion Agenda:

a. Consideration of Auditing Services for FY 2010:

Mr. Powell stated that at the December 16th Finance Committee meeting staff reported its findings on the performance of Cherry, Bekaert & Holland (CBH) versus

the need of performing an RFP for auditing services. Staff recommends continuing the relationship with CBH for FY 2010, which the Finance Committee endorsed. He further stated that the auditors proposed to freeze standard fees and reimbursable expenses at the FY 2009 level of \$47,710. He explained that due to the District receiving stimulus funds, a "single audit" will have to be performed. The work performed in a single audit is beyond the normal scope of previous audits and will increase fees by an additional \$5,000. He stated that staff believes the single audit will only have an impact on the FY 2010 engagement, therefore, staff recommends approval of the FY 2010 audit contract. Mr. Stanley expressed a concern about not hiring a local accounting firm. Mr. Powell stated the reason why MSD went with CBH, in 2003, is because staff did an exhaustive RFP process, and CBH has expertise in the utility industry. Ms. Bellamy agreed with Mr. Stanley, in that over the years, there has been changes in the cost as well as qualifications of local firms. Mr. Haner asked if staff is comfortable with the single audit cost. Mr. Powell said yes. He stated that CBH agreed to a \$1,300.00 decrease in last year's fee of \$47,710.00 and if the single audit is less than the not-to-exceed cost of \$5,000.00, they would pass those savings back to the District.

b. Cash Commitment/Investment Report-Month Ended January 31, 2010:

Mr. Powell reported that Page 2 shows the makeup of the District's Investment Portfolio. He stated there has been no change in the makeup of the portfolio from the prior month. He further stated that a box was added showing the District's Investment Portfolio and makeup of the maximum amount the District's investment policy allows. Page 3 is the Investment Managers' Report as of the month of January. Mr. Powell stated that currently the weighted average maturity of the investment portfolio is 100 days. The yield to maturity is 1.38%; exceeding the bench marks of 6 month T-Bill Secondary Market and NCCMT cash portfolio. Page 4 is an Analysis of Cash Receipts. Mr. Powell reported that YTD Domestic Sewer Revenue is lower than historic averages due to a wet summer and recessionary pressures. These items could equate to a 3.5 to 4.0% budget shortfall in the Domestic Revenue line item which amounts to approximately \$1 million dollars. He stated that MSD has seen efficiencies in the CIP Budget, so staff does not think this will have an impact on the current Operational Budget. He further stated that Facility and Tap fees are above budgeted expectations due to the District budgeting these revenues conservatively. From a year to year comparison, revenues are down \$1 million dollars. Page 5 is an Analysis of Expenditures. Mr. Powell reported that O&M expenditures are reasonable based on historical trends and current year budgeted needs. Debt service expenditures are below budgeted expectations due to lower than expected interest rates on variable rate debt, and due to the nature and timing of capital projects, YTD expenditures can vary from year to year. Mr. Powell stated that based on the current outstanding capital projects, YTD capital project expenditures are considered reasonable. Page 6 is the Variable Debt Service Report. Mr. Powell reported that both the 2008 A&B Series are performing better than budgeted expectations, and as of the end of February, both issues have saved District customers \$2.3 million dollars in debt service.

Mr. Kelly asked if there are any expenses exceedingly out of line, such as health care. Mr. Powell stated that as far as health care costs, the numbers look extremely favorable, even with a 5.5% rate increase, which is well below the increase for Medicare/Medicaid inflation at 8-14%. He further stated that because of the work done by Human Resources on the Disease Management Program, the District is starting to see lower increases in health care costs. Mr. Hartye stated that the rest of the operational expenses are in-line.

Mr. Bissette moved that the Board approve the Consolidated Motion Agenda item (Audit Services Contract FY 10) as presented. Mr. Russell seconded the motion. Roll call vote was as follows: 9Ayes; 2 Nays; Ms. Bellamy and Mr. Stanley.

8. Old Business:

None

9. New Business:

None

10. Adjournment:

With no further business, Mr. Aceto called for adjournment at 2:22 PM.

Jackie W. Bryson, Secretary/Treasurer

MSD

Regular Board Meeting

Metropolitan Sewerage District
of Buncombe County, NC

AGENDA FOR 03/17/10

✓	Agenda Item	Presenter	Time	
	Call to Order and Roll Call	Aceto	2:00	
	01. Inquiry as to Conflict of Interest	Aceto	2:02	
	02. Approval of Minutes of the February 17, 2010 Board Meeting.	Aceto	2:05	
	03. Discussion and Adjustment of Agenda	Aceto	2:10	
	04. Informal Discussion and Public Comment	Aceto	2:15	
	05. Report of General Manager	Hartye	2:20	
	06. Consolidated Motion Agenda		2:45	
	a. Consideration of Audit Services Contract FY 10.	Hartye		
	b. Cash Commitment/Investment Report–Month Ended January 31, 2010	Hartye		
	07. Old Business:	Aceto	3:05	
	08. New Business:	Aceto	3:10	
	09. Adjournment (Next Meeting (4/21/10))	Aceto	3:20	

APPROVAL OF MINUTES

**BOARD OF THE METROPOLITAN SEWERAGE DISTRICT
FEBRUARY 17, 2010**

1. Call to Order and Roll Call:

The regular monthly meeting of the Metropolitan Sewerage District Board was held in the Boardroom of MSD's Administration Building at 2:00 P.M., Wednesday, February 20, 2010. Chairman Aceto presided with the following members present: Bellamy, Bryson, Creighton, Haner, Kelly, Root, Russell, Stanley, VeHaun and Watts. Mr. Bissette was absent.

Others present were: Thomas E. Hartye, General Manager, William Clarke, General Counsel, Gary McGill with McGill Associates, Leah Karpen with the League of Women Voters, Joseph Martin with Woodfin Sanitary Water & Sewer District, Lucy Crown with Parks, Greenways & Recreation Services of Buncombe Co., David Tuch of Equinox Environmental, Dwayne Stutzman with the Greenway Commission, Stan Boyd, Ed Bradford, John Kiviniemi, Peter Weed, Jim Hemphill, Scott Powell, Ken Stines, Angel Banks, Julie Willingham, Sondra Honeycutt, MSD.

2. Inquiry as to Conflict of Interest:

Mr. Aceto asked if there were any conflicts of interest with the agenda items. No conflicts were reported.

3. Approval of Minutes of the January 20, 2010 Board Meeting:

Mr. Aceto asked if there were any objections to approving the Minutes of the January 20, 2010 Board Meeting as presented. With no objections, the Minutes were approved by acclamation.

4. Discussion and Adjustment of Agenda:

None

5. Informal Discussion and Public Comment:

Mr. Aceto welcomed Ms. Karpen, Ms. Crown, Mr. Tuch and Mr. Stutzman.

6. Report of General Manager:

Mr. Hartye introduced Ms. Lucy Crown, with Parks, Greenways & Recreation (PGR) Services of Buncombe County for a presentation on an 11-mile Greenway Master Plan and Feasibility Study being done by Equinox Environmental. Ms. Crown introduced Mr. Dwayne Stutzman, Chairman of the Greenway Commission and Mr. David Tuch, Vice President of Equinox Environmental.

Ms. Crown reported that Buncombe County (PRG) Services is administering a multi-jurisdictional, multi-party grant to look closely at the feasibility for a greenway along the US 70 and Swannanoa River Corridor. The project area is just over 11 miles from the county line in the vicinity of Ridgecrest and the Point Lookout Trail, through the Town of Black Mountain and Swannanoa, to Azalea Road Park within the City of Asheville, where the trail will connect with the Wilma Dykeman Riverway Plan.

Ms. Crown reported that in March of 2008, the Buncombe County Commissioners passed a resolution to form a Greenway and Trails Commission. The Commission, comprised of 14 members, began working in September of 2008. She stated that the mission of the Commission is "To support and promote the development of an environmentally friendly system of connected trails and greenways to improve health, alternative travel, economic development, and recreation in coordination with towns, cities, communities, businesses, non-profit organizations and adjacent counties."

Another mission is to create trees in top priority areas such as along the US 70 Corridor in Swannanoa. Ms. Crown further reported that the Commission sought funding through the French Broad River Metropolitan Funding Organization (FBRMPO) through its United Planning Workers Program (UPWP). The grant is for \$30,000 with an 80/20 match, and although the Buncombe County PGR is administering the grant, they are working with four other partners; Town of Black Mountain, City of Asheville, Blue Ridge Bike Club, and the Swannanoa Greenway Committee, of which all have contributed to the 20% match. The municipalities of these partners are contributing technical support through planning and recreational staff as well as support through greenway commissions.

Ms. Crown reported that the study area is an eleven-mile stretch serving two municipalities, Warren Wilson College, and un-incorporated areas of the County. These areas have been broken down into five sectors, with each sector having its own level of development as far as greenways. Ms. Crown went over the location of each sector and the opportunities and obstacles of each. She stated that the goals for the project are to create a conceptual plan; conduct public meeting for input; develop feasible routes for multi-use trail or series of trails within each sector; work with NCDOT and Norfolk Southern to determine ROW boundaries; work with the MSD to verify sewer easements; identify barriers in each sector and propose possible resolutions, and provide cost estimates for each sector. The objectives of the project are two-fold. First, to create a conceptual plan that covers the entire study area, and second address challenges and obstacles. Ms. Crown stated that at the end of the study they expect a technical document, trail alignment, costs and design needs and solutions. This information will be used for public outreach, funding opportunities and political approval.

Mr. Aceto asked where MSD fits into the study. Mr. Tuch stated that they are creating maps for the entire corridor showing all of the MSD alignments. This information will then be overlapped with the alignments for the greenway. He further stated that the greenway will follow the river as much as possible and the reason for MSD's involvement is that approximately one-half of the 11-mile area could be following the MSD sewer line. Also, MSD is allowing them to piggy-back on top of its easements that are in place. Ms. Banks stated that MSD has agreements with Fletcher, Black Mountain and the City of Asheville to dovetail greenway sewer easements. These agreements specify issues such as access to sewer lines for repair, restoration issues and physical liability issues. She explained that if any greenway overlaps MSD rights of way, they would become a part of that particular municipality's Parks and Recreation Division and would be under their umbrella liability insurance coverage. Mr. Aceto asked if the scope of MSD easements is broad enough to allow it to introduce public greenways. Mr. Clarke said no. However, MSD does not object to the various towns acquiring additional rights from individual land owners. Ms. Crown stated that currently the County does not have a User Agreement with MSD. Mr. Stutzman stated that the Commission is very excited about the fact that there are opportunities available, and in instances where greenways are part of the infrastructure, this does a lot to assist in the economic viability of an area. He further stated that they are looking forward to creating a comprehensive system where everyone has the ability to utilize these facilities. Mr. Haner asked if this effort will have to deal with each and every property owner. Mr. Clarke stated that although MSD has a sewer easement, it cannot give the right to cross an easement for a greenway to Buncombe County, but MSD is cooperating fully in identifying these easements, providing maps, etc. for Buncombe County's use. Mr. Root stated that since the land owner has already granted an MSD easement, adding this on might not be as much of a problem. Mr. Stutzman stated that the Commission understands the financial ramifications and that this will be a long process.

Mr. Hartye continued with his report. He announced that the Board Retreat will be held in the Boardroom on March 17th from 11:30 a.m. till 1:55 p.m. Lunch will be served. The regular Board Meeting will begin at 2 p.m. Mr. Hartye reported that some

of the agenda items for the Retreat include: Serving areas with failing septic tanks; MSD Board Travel Policy; Policy for the extension of sewer into areas identified in the Master Plan, and Press Relations, education, etc.

Mr. Hartye presented an Asheville Citizens Times (AC-T) article on a sewage spill; MSD wellness newsletter "Rejuvenations", and the Chairman's letter to the editor of the AC-T.

Mr. Hartye reported that the Right of Way Committee meeting scheduled for February has been cancelled. The next regular Board meeting will be held March 17th at 2 p.m. The Board Retreat will be held just prior to the Board Meeting from 11:30 a.m. to 1:55 p.m. The Finance and Ethics program given by the UNC School of Government will be held February 24th at the Biltmore Doubletree. Registration/refreshments will begin at 8 a.m. and the program will start at 8:30 a.m. Mr. Hartye provided a copy of the District's audited financial statements along with current budget forecast for those participants who plan to attend.

7. Report of Committees:

Mr. Kelly reported that the Right of Way Committee met January 27, 2010 to consider Compensation Budgets for the Liberty Street and Morris Street @ Talmadge Rehabilitation projects, and a review of the Quarterly Report for the Second Quarter. He stated that Mr. Clarke presented documents and information concerning the ongoing negotiations with Norfolk Southern Railway. Mr. Kelly stated that in an e-mail from Mr. Clarke, he suggested that the Board defer any action on the proposed Memorandum of Agreement and License Agreements until the March meeting. Mr. Haner asked if this issue will be brought back to the Right of Way Committee first. Mr. Kelly said yes.

8. Consolidated Motion Agenda:

a. Consideration of Compensation Budgets for Liberty Street Rehabilitation and Morris Street @ Talmadge Rehabilitation:

Mr. Hartye reported that the ROW Committee recommends approval of the compensation budgets for Liberty Street Rehabilitation and Morris Street @ Talmadge Rehabilitation.

b. Consideration of Bids for Sanitary Sewer Replacement Projects: Forest Hill Drive No's 1 & 2:

Mr. Hartye reported that these rehabilitation projects are for the replacement of aged six and eight-inch clay lines, which contain a significant number of structural defects. He stated that these projects are located in the Kenilworth area of Asheville, near Mission Hospital, and are comprised of a total of 1,831 LF of 8-inch DIP. The following bids were received on Tuesday, February 2, 2010 as follows: Fallon Utility Construction with a total bid of \$463,400.16; Carolina Specialties, Inc. with a total bid of \$324,522.17; Patton Construction Group with a total bid of \$311,700.00; Buckeye Construction Co., with a total bid of \$289,553.15; Spur Construction Co., with a total bid of \$272,837.55; Huntley Construction Co., with a total bid of \$228,647.00; Terry Brothers Construction Co., with a total bid of \$228,402.50, and T&K Utilities, Inc. with a total bid of \$216,243.00. Mr. Hartye further stated that staff recommends award of this contract to T&K Utilities, Inc. in the amount of \$216,243.00, subject to review and approval by District Counsel.

c. Consideration of Acceptance of Developer Constructed Sewer Systems – Asheville Ford Dealership Project:

Mr. Hartye reported that this project is located inside the District boundary at the intersection of Pond Road and Interstate Boulevard in Asheville and consists of approximately 273 LF of 8” public gravity sewer. He stated that staff recommends acceptance of the developer constructed sewer system. All MSD requirements have been met.

d. Adoption of Budget Calendar:

Mr. Hartye presented a proposed Budget Calendar showing the dates and times of the Personnel, CIP, Finance and Board Meetings through June. Staff recommends approval of the proposed Budget Calendar.

e. Second Quarter Budget to Actual Review – FY 2009-2010:

Mr. Powell reported that Domestic User Fees are below expectations. He explained that typically the District achieves 52% of its budgeted revenues through December, but it is currently at 48.4%. He stated that if the current percentage holds true for the remainder of the year, the District could miss its budgeted revenues by 3.5 to 4.0%, which equates to a shortfall of approximately \$1 million. He further reported that Facility and Tap Fees are above budgeted expectations, due to the District's approach in conservatively budgeting these revenues. Interest and miscellaneous income reflect expected earnings on investments. O&M expenditures are below 50%, and amounts budgeted for capital equipment and projects are rarely expended proportionately throughout the year. He stated that the Secondary Microscreen project has been placed on hold until staff has a clearer picture on revenue trends. Mr. Hartye stated that all of the numbers on the expenditure and revenue side are good, except for a decline in consumption for both residential and commercial usage. Mr. Watts asked if there is a relationship between the decrease in user fees and flows. Mr. Hartye said yes. Consumption is based on meter consumption, which translates into flows. However, flows at the plant are higher during this period due to wet weather. Mr. Watts stated that in Black Mountain he has seen a tremendous increase during dry weather in water used for irrigation that would not show up in sewer flows. Mr. Hartye stated that some people choose to have an irrigation meter installed so the amount used can be deducted from their bill, which MSD allows.

f. Second Quarter City of Asheville Billing Report – FY 2010:

Mr. Powell reported that Net Billings are up .40%; Cash receipts during the first half of the year were down 2.5%; Receivables are up 11%, and the aging percentages are showing signs of accounts requiring addition time to collect. Ms. Bellamy asked if MSD has discussed the possibility of monthly billing for all customers, instead of bi-monthly. Mr. Hartye stated that some discussion has been held with the water department in the past, but MSD has not heard anything regarding this for several months. He further stated that there are pros and cons to monthly billing. Ms. Bellamy asked the Board if it is okay to ask Staff to make a position on this issue to send to City Council, so Council will know how this would impact the District. Mr. Hartye stated that in order for staff to come up with a position, it needs to see what Asheville's intent is as far as the cost of billing. Mr. Haner asked if the cost would be negotiable. Mr. Hartye stated that the City needs to look at their cost first, particularly since the number of bills will be double, and since a stormwater fee will be added. Mr. Russell stated that as Chairman of Finance Committee, he will try to bring something back to the Board at the next meeting. Mr. Aceto suggested that this issue be brought to Retreat for consideration.

g. Cash Commitment/Investment Report-Month Ended December 31, 2009:

Mr. Powell reported that Page 2 presents the makeup of the District's Investment Portfolio. There has been no change in the makeup of the portfolio from the prior month. Page 3 is MSD's Investment Managers' report as of the month of December. Mr. Powell stated that because of the nature of the business of the District, and the amount of CIP that is done, the weighted average maturity of the investment portfolio is 96 days. The yield to maturity is 1.45% and is exceeding the bench marks of 6 month T-Bill and NCCMT cash portfolio. Mr. Powell further reported that Page 6 is MSD's Variable Debt Service report. He stated that both the 2008 A&B Series are performing better than budgeted expectations, and as of the end of January, both issues have saved District ratepayers \$2.1 million in debt service. Ms. Karpen asked if MSD's travel policy will be discussed at the upcoming retreat, and if there has been any further discussion with Progress Energy about providing back up power. Mr. Hartye said yes. Mr. Hartye stated that staff has met with Progress Energy and will continue to meet in more detail about potential improvements that Progress Energy can make along with associated costs and bring this information back to the Board.

Mr. Kelly moved that the Board approve the Consolidated Motion Agenda as presented. Mr. Stanley seconded the motion. Roll call vote was as follows: 11 Ayes; 0 Nays.

9. Old Business:

Mr. Clarke reminded the Board that it needed to fill the Vice Chairman vacancy within 60 days of the January meeting. Mr. Aceto called for nominations for Vice Chair. Ms. Bryson nominated Mr. Bissette. Mr. VeHaun nominated Mr. Stanley. Mr. Root moved that the nominations be closed. Mr. Watts seconded the motion. Voice vote in favor of motion was unanimous. Mr. Aceto called for a show of hands in favor of the nomination for Mr. Bissette. Mr. Aceto called for a show of hands in favor of the nomination for Mr. Stanley. Mr. Stanley was elected Vice Chair by a vote of 6 to 4.

10. New Business:

Mr. Hartye announced that Ken Stines is available outside to give a demonstration of MSD's new Vactor Truck.

11. Adjournment:

With no further business, the meeting adjourned at 2:50 P.M.

Jackie W. Bryson, Secretary/Treasurer

GENERAL MANAGER REPORT

MEMORANDUM

TO: MSD Board
FROM: Thomas E. Hartye, P.E., General Manager
DATE: March 11, 2010
SUBJECT: Report from the General Manager

- Home Show 2010

The annual Home Show will be held March 19-21. MSD plans to have a booth as it has for approximately the last 10 years.

- MSD Board Retreat

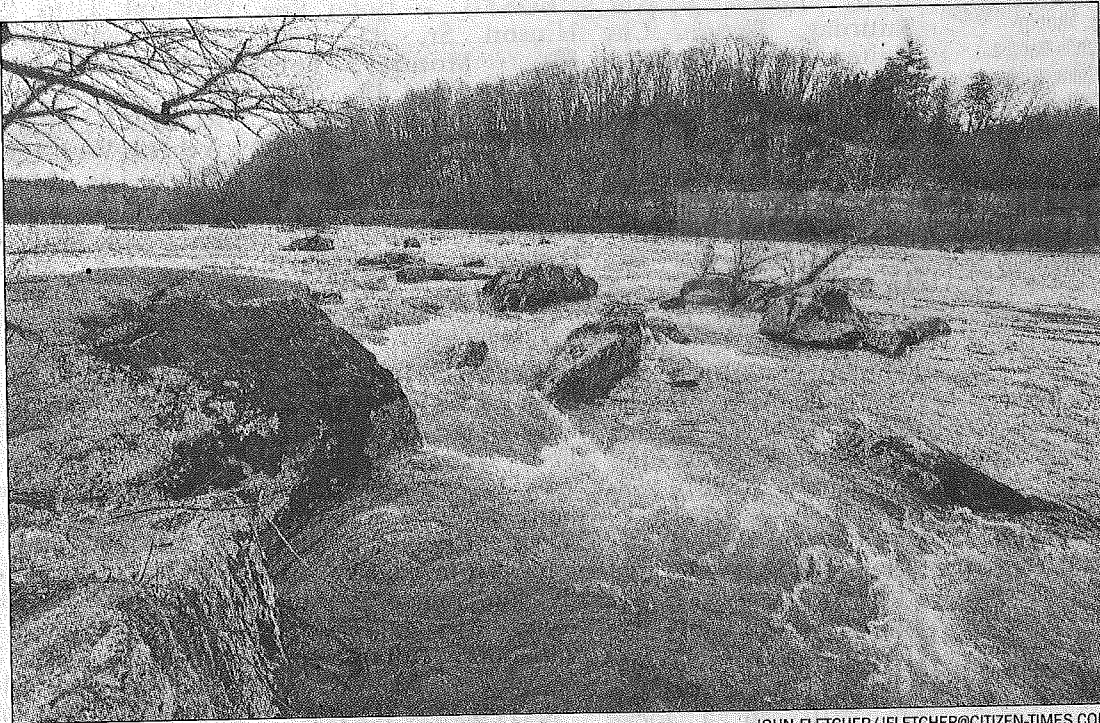
The Retreat will be held here in the MSD Boardroom on March 17th from 11:30 am till 1:55 pm. Lunch will be served. The Regular Board Meeting will begin at 2 pm. The agenda packet for the retreat will be sent out as a separate document.

- Reading

- AC-T article on French Broad River getting cleaner
- AC-T articles on Water rate increase
- Blue Ridge Now article on Cane Creek WSD

- Board/Committee Meetings

The next Right of Way Committee meeting will be held March 24th at 9 AM. The next Regular Board Meeting will be held April 21st at 2pm.



JOHN FLETCHER/JFLETCHER@CITIZEN-TIMES.COM

The French Broad River is seen Wednesday at Ledges Park near Alexander.

French Broad's water gets cleaner

Development lag may be reason

By Nanci Bompey
NBOMPEY@CITIZEN-TIMES.COM

ASHEVILLE — Streams and rivers in the French Broad River basin are getting cleaner, according to a draft list of impaired waters released by the N.C. Division of Water Quality.

The draft 2010 list released by the state earlier this month included 224.5 miles of impaired waters in the French Broad River basin. That's compared with 293.5 miles on the 2008 list — a drop of 69 miles.

Improvements in water quality, differences in the weather and changes in development patterns and methods are all factors possibly contributing to the decline, said Susan Massengale,

a spokeswoman for the N.C. Division of Water Quality. But she said it is hard to say why the decline occurred and if it is a trend that will continue.

"We are seeing an improvement, and we hope to see that trend continue," she said.

Every two years, the federal Clean Water Act requires states to submit to the Environmental Protection Agency a list of streams, rivers and other bodies of water that do not meet water quality standards or are unable to support its intended best uses.

Waters are assessed on their levels of dissolved oxygen, pH, temperature, chlorophyll, toxic substances and metals, ecological and biological integrity, and turbidity.

Hartwell Carson, water quality specialist at the Western North Carolina Alliance,

Please see **WATER** on B3

GET INVOLVED

Written comments are being accepted until March 3. They may be sent to: Jennifer Everett, NC DWQ, Planning Section, 1617 Mail Service Center, Raleigh, NC 27699-1617 or Jennifer.everett@ncdenr.gov.

WANT TO LEARN MORE?

Mountain WILD! and the Western North Carolina Alliance are hosting a talk on water quality in the French Broad River watershed 7 p.m. Tuesday at the WNC Nature Center, 75 Gashes Creek Road, Fletcher.

WEB EXTRA

Visit **CITIZEN-TIMES.com** to see a copy of the 2010 impaired waters list.

WATER: Advocates hopeful quality trend will continue

Continued from B1

said almost half of the streams in the French Broad River basin removed from the 2010 list were because of an improvement in turbidity, or the clarity of the water.

He believes the decline is tied to a decrease in development, which can be responsible for some turbidity problems.

"The last couple of years we haven't been developing a lot because of the economy," he said. "It shows that growth has impacts to the environment, and now that we've slowed down those streams have started to improve."

Some of the waters dropped from the 2010 list include:

■ A nearly 20-mile stretch of the French Broad River from its source to Nicholson Creek.

■ 8.2 miles of the French Broad from Mud Creek to N.C. 146.

■ A 19-mile area of the river from N.C. 146 to Craggy Dam.

More than 11 miles of the Swannanoa River from Bull Creek to the French Broad River were also removed from the latest version of the list.

Three of the four areas were first included on the list in 2008 because of concerns over turbidity.

Carson said turbidity was to blame for the steady increase in the number of impaired

stream miles in the French Broad River basin from 2004-08, and the jump in the number of impaired streams from 2006-08, which was the worst year for water quality since 1998.

"I would feel confident that if we start developing like we did before ... the turbidity would easily go back up," Carson said.

Carson said stream restoration efforts could also be a factor in the improvements in water quality.

Streams listed on the 303d list, as the impaired waters list is referred to, can be given priority when it comes to grants for restoration.

Listing of Newfound Creek on the impaired water list helped Buncombe County get \$459,000 in EPA grants aimed at improving water quality, said Jenn Beck, Newfound watershed project coordinator.

"It is a priority (for funding) because the state has already realized it is an impaired stream," she said.

The list also helps the state Division of Water Quality in its permitting process and in focusing its restoration efforts.

"It is something we are very conscious of," said Roger Edwards, regional supervisor for surface water protection.

"We use it in our decision-making process," he said.

Water rates may jump 9%

Conservation, transfer of funding to road, sidewalk repairs strap system

By Joel Burgess
BURGESS@CITIZEN-TIMES.COM

ASHEVILLE — Water customers in and around the city could soon face one of the biggest rate hikes in more than a decade. One of the reasons for the

proposed 9 percent increase appears to defy logic: there's too much water.

Another reason makes too much sense: the water system could lose up to \$1.7 million transferred by the city to road

and sidewalk repair.

All told, the water system is looking at a \$3.2 million shortfall, or 10 percent of its \$32 million budget.

The rate increase, which might start in July, should only moderately affect most households, city water resources staff said, with the average household's bill rising slightly more than \$20 annually. But, high-

volume users, such as the Grove Park Inn say they would feel the hike.

"This is absolutely a big deal," Grove Park CEO Craig Madison said Monday. "We're still recovering from the hard-hit recession days, then out of the blue, we're hit with this."

Please see WATER on B3

WATER: Options examined

Continued from B1

Too much water, road repairs

The proposed increase would be the third one in the last three years. The 9 percent rise would also be the highest one city water users have seen since at least 2000.

Along with Asheville residents, the city water system serves many customers around Buncombe County who would see higher bills.

Two reasons for the increase appear strange on the surface. There is basically too much water and too little consumption.

"It's a double-edged sword that every water system in the country sees," said Steve Shoaf, water resources director.

Conservation extends the life of the water supply, and that's good, said Shoaf.

"But there are a lot of fixed costs associated with running a utility, such as debt service and salaries," he said.

From July to December, voluntary customer conservation and a cutback in irrigation due to plenty of natural rainfall meant a 9 percent reduction in water use. If consumption doesn't pick up this summer, it could cost the city system \$600,000 in revenue.

The system is also losing its biggest water customer, the City of Hendersonville, which pays \$420,000 a year.

Meanwhile, if a 50 percent drop in development from July to December doesn't pick up that could drain another \$400,000

annually, the system added \$148,806 to annual debt payments two years ago when it borrowed money for a \$40 million system overhaul.

The biggest hit though comes following changes to what city leaders saw as a punitive state law restricting the use of system revenue. State lawmakers recently tweaked the Sullivan Acts, state laws forbidding the city from the common practice of using water revenue outside the system. The city is now allowed to divert up to \$1.7 million from water bills to sidewalk and street repair.

Who gets hit

The City Council will hear about the proposed increase during a 3 p.m. work session today, but they don't plan on voting at that time.

A vote would likely come this spring as the council crafts its budget for the fiscal year beginning July 1.

At least one council member, Cecil Bothwell, supports the increase. Bothwell said maintaining the system is one of the few costs rate payers have for a relatively cheap service.

"If it arrives at our taps, we expect it to be cheap, and yet we gladly pay \$1 for 12 ounces when it's in a bottle," he said. "For all practical purposes the water is free. If we need to raise rates to maintain the system I am in favor of it."

The increase would be for the consumption rate along with a meter fee that goes to the system's large construction projects.

would see bills rise \$23.32 annually, from \$259.08 to \$282.40, water staff said.

But high-volume users, such as the Grove Park Inn, could see a \$23,000 jump, Madison said, which could mean someone loses a job.

"There's no way to pass on these rate increases to customers in this kind of economy," he said.

Even with the increase, Asheville's water prices would be lower than many other systems, Shoaf said. The Sullivan Acts do not allow Asheville to charge noncity residents higher prices, as is common in other places.

Other solutions

If the council doesn't want to raise rates, there are other options. One is pushing back system improvements. That can be problematic, Shoaf said.

Before rate increases this year and last year, elected officials were loath to raise rates and customers saw few additions to their bills.

That meant needed repairs were put off, something common in many systems, the water resources director said.

"It's delayed maintenance. The impact is the systems didn't make the improvements they needed to make. Equipment gets old and breaks down," he said.

Another option, not included in Shoaf's report to the council, is for city leaders to transfer less or none of the \$1.7 million to road and sidewalk repair. That is a tough choice, considering council members fought hard for that control of water revenue and are coping with climbing road maintenance costs.

Water rate increase debated

Most on council against big hike

By Joel Burgess
JBURGESS@CITIZEN-TIMES.COM

ASHEVILLE — A water rate increase that would be the biggest in a decade may be scaled back following criticism of the proposal by some City Council members Tuesday.

The water system is anticipating a \$3.2 million hole in its budget and city water staff suggests a 9 percent rate increase.

That would amount to a moderate \$23.32 annual increase for the average household, from \$259.08 to \$282.40. But it could add tens of thousands of dollars to the bills of bigger customers.

City Councilman Bill Russell said he was "totally against" the rate increase.

"I understand we have to have a financially predictable revenue stream ... but I'm not sure I can take this at face value," Russell said after a Tuesday work session.

Council members weren't scheduled to vote, but shared their thoughts on the proposal by Steve Shoaf, water resources department director. Council

Please see **COUNCIL** on B3

COUNCIL: Proposed changes to bus system put off

Continued from B1

will likely revisit it as part of budget deliberations. The budget must be passed before July 1, the beginning of the fiscal year.

Five of seven council members raised objections to part or all of the increase: Mayor Terry Bellamy, Vice Mayor Brownie Newman, Jan Davis, Russell and Gordon Smith. Ideas from them included scaling the increase back to 4 percent, phasing it in and giving an exemption to small businesses.

"You lay that on a

small business and they're (in trouble)," Smith said of the increase.

Esther Manheimer said she needed to hear more about the issue. Cecil Bothwell supported the increase, saying water service was still relatively cheap and the delivery system needs to be maintained.

"I remain convinced that water is underpriced," Bothwell said.

Hits to the system include an anticipated \$600,000 stemming from a 9 percent drop in usage by customers engaged in voluntary conservation,

the loss of \$420,000 annually with the exit of the city's biggest customer, Hendersonville, and \$1.7 million transferred to streets and sidewalks.

Less of a rate increase would mean the city has to put off system maintenance and upgrades, Shoaf said. That has been a problem in past decades for Asheville and other systems as elected officials held off rate increases, and systems gradually fell apart, the water resources director said.

"We've already cut our capital budget by about \$2 million, and we'll just

have to revisit it," he said.

But "the big elephant in the room," he said, is an estimated \$21 million in repairs the city will have to find money for in coming years when the state reroutes Interstate 26 and cuts several important water connections.

■ In other business Tuesday, the council voted unanimously to put off proposed changes to the bus system, including cutting major corridor wait times in half and increasing the cost of some passes. Transit staff will come back in April with new ideas about funding.



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Sewer district wants to expand

Cane Creek could build its own treatment plant

By James Shea Times-News Staff Writer

Published: Wednesday, March 3, 2010 at 4:30 a.m.

The Cane Creek Sewer District is exploring ways to expand service and might consider building a sewer treatment plant.

Cane Creek serves 3,500 sewer customers at the north end of Henderson County. The Metropolitan Sewer District of Buncombe County treats the waste. Cane Creek sends around 700,000 gallon a day to the MSD and has a 1.3-million-gallon allocation. The Cane Creek Sewer District is run by the Henderson County Board of Commissioners. County Engineer Marcus Jones said the district is looking at meeting future needs and found it needed 3 million gallons.

William G. Lapsley and Associates was recently contracted to study the capacity issues within the Cane Creek system. One possibility is purchasing more capacity from MSD, and another would be to build a facility to treat the extra waste.

"There are several options we are exploring," Jones said. "MSD has presented us with an offer to get extra capacity."

One option is to build a treatment plant on a property in Buncombe County. Ten years ago, Henderson County and Asheville entered into a water agreement. Asheville was allowed to build a water treatment plant on the Mills River. In exchange, Henderson County was deeded a piece of property in Bent Creek to use for the future construction of a sewage treatment plant and given a seat on a now defunct water authority.

"Certainly utilizing Bent Creek is one of the options," Jones said.

He said it would be years before any plant is constructed, but it takes years to get all of the necessary permits for a waste treatment plant.

The challenge for Henderson County is the politics. The county does not believe Asheville has fulfilled its end of the contract over the water treatment plant, and would have to work with the city despite the dispute. Asheville City Council and the Henderson County Board of Commissioners have met several times over the past year to try to resolve the dispute, but no agreement has been reached.

Commissioner Charlie Messer sits on the Cane Creek Advisory Board. He said the treatment options need to be studied and the Bent Creek issue needs to be explored carefully. Cane Creek does not want to create more problems if a treatment plant is constructed.

"We are looking out for the people of Henderson County, because we don't want what happened with that water agreement with the previous board (of commissioners)," Messer said.

Another issue is the MSD board. If Cane Creek decides to use MSD to treat its increased waste water, the organization expects to have a seat on the MSD board.

Jones said Cane Creek is the largest MSD customer already. The MSD system was built up to handle several large manufacturing facilities in Buncombe County, but those operations have closed.

Commissioner Chuck McGrady attends the MSD board meetings but does not have voting privileges. McGrady said MSD has offered to let Cane Creek join the MSD system. McGrady said he wants the consultant's study completed before any decisions are made on future treatment options.

"At some point in the future, MSD might need a new treatment plant," McGrady said. "And if we are sending some of that waste to be treated, that might make some sense (to use Bent Creek). It is one of the pieces that have been suggested."

CONSOLIDATED MOTION COVER

Metropolitan Sewerage District of Buncombe County BOARD ACTION ITEM

Meeting Date: March 17, 2010
Submitted By: Thomas E. Hartye, PE., General Manager
Prepared By: W. Scott Powell, Director of Finance
Subject: Consideration of Auditing Services for FY 2010

Background

At the November 18, 2009 Board meeting, Finance Committee Chairperson Kelly requested staff to assess the performance of the District's auditors Cherry, Bekaert & Holland (CBH) versus the need of performing a RFP for auditing services for FY 2010. Staff reported their findings at the December 16, 2009 Finance Committee. The Finance Committee endorsed staff recommendation of continuing the relationship for FY 2010.

Discussion

For this year's engagement, the auditors proposed to freeze standard fees and reimbursable expenses at FY 2009 level of \$47,710. This was approved by the full board at the December 16th board meeting. Both items resulted from auditors experience and the District's preparedness on previous engagements. Mr. Russell also stated that Cherry, Bekaert & Holland, LLP will be glad to work hard to control expenses, and pass on any additional savings to the District.

The District will have additional cost for a Single Audit which was not communicated at the December 16th board meeting. Due to the District receiving stimulus funds, our auditors will have to perform a Single Audit. The Single Audit is beyond the normal scope of work performed in previous engagements and will increase fees by an additional \$5,000. Staff believes that the Single Audit should only have an impact on FY 2010 engagement.

Fiscal Impact

The increase in combined audit fees and reimbursable expenses from \$47,710 to \$52,710 (see attached engagement letter and audit contract) represents an impact of \$5,000 which will be included in the FY 2010-11 budget.

Staff Recommendation

Staff recommends approval of the FY 2010 audit contract with Cherry, Bekaert & Holland, LLP.

Action Taken

Motion by:	to	Approve	Disapprove
Second by:		Table	Send to Committee
Other:			
Follow-up required:			
Person responsible:			Deadline:



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February 8, 2010

Mr. W. Scott Powell, Director of Finance
Metropolitan Sewerage District of Buncombe County, North Carolina
2028 Riverside Drive
Asheville, North Carolina

Dear Mr. Powell:

This letter of arrangement between Metropolitan Sewerage District of Buncombe County (the "District") and Cherry, Bekaert & Holland, L.L.P. ("CB&H") sets forth the nature and scope of the services we will provide, the District's required involvement and assistance in support of our services, the related fee arrangements and other terms and conditions designed to assure that our professional services are performed to achieve the mutually agreed upon objectives of the District.

SUMMARY OF SERVICES

We will audit the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the remaining fund information, which collectively comprise the basic financial statements of the District as of and for the year ended June 30, 2010.

Accounting standards generally accepted in the United States ("GAAP") provide for certain required supplementary information ("RSI"), such as management's discussion and analysis ("MD&A"), to accompany the District's basic financial statements. As part of our engagement, we will apply certain limited procedures to the District's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI, we will disclaim an opinion on it.

Supplementary information other than RSI, including the schedule of expenditures of federal awards, also accompanies the District's basic financial statements. We will subject such supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements.

Additional information, such as the letter of transmittal and statistical section will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which our auditor's report will disclaim an opinion.

SUMMARY OF SERVICES (Continued)

Any additional services that you may request, and that we agree to provide, will be the subject of separate written arrangements. Should the District wish to include or incorporate by reference these financial statements and our report thereon into any official statement or any other document related to the offering of debt securities at some future date, we would consider our consent to the inclusion of our report into another such document at that time. However, we are required by auditing standards generally accepted in the United States of America ("GAAS") to perform certain procedures before we can give our permission as to the inclusion of our report into another such document. You agree that you will not include or incorporate by reference these financial statements and our report thereon into any other document without our prior written consent.

Russell Coleman, who will be responsible for assuring the overall quality, value and timeliness of our services to you, will lead the engagement.

AUDIT OBJECTIVES

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with GAAP and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements and grants, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act, if applicable.

The reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of the audit committee, management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with GAAS; *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; the provisions of OMB Circular A-133; the State Single Audit Implementation Act and will include test of accounting records, a determination of major programs in accordance with Circular A-133 and the State Single Audit Implementation Act, and other procedures as deemed necessary to enable us to express such an opinion and to render the required reports. If any of our opinions resulting from the procedures described above are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue a report as a result of this engagement.

YOUR EXPECTATIONS

As part of our planning process, we will discuss with you your expectations of CB&H, changes that occurred during the year, your views on risks facing you, any relationship issues with CB&H, and specific engagement arrangements and timing. Our service plan, which includes our audit plan, is designed to provide a foundation for an effective, efficient, and quality-focused approach to accomplish the engagement objectives and to meet or exceed your expectations. Our service plan will be reviewed with you periodically and will serve as a benchmark against which you will be able to measure our performance.

MANAGEMENT RESPONSIBILITIES

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; for the fair presentation of the financial statements in conformity with GAAP; and for federal award program compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein.

Management is responsible for making all financial records and related information available to us, including identifying significant vendor relationships in which the vendor has the responsibility for program compliance and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are also responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the District involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. You are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud affecting the District received in communications from employees, former employees, regulators or others. In addition, you are responsible for identifying and ensuring that the District complies with applicable laws, regulations, contracts, agreements, and grants. Additionally as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

Management is responsible for establishment and maintenance of a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions and recommendations, as well as your planned corrective actions, and the timing and format related thereto.

MANAGEMENT RESPONSIBILITIES (Continued)

At the conclusion of the engagement, the District's management will provide to us a representation letter that, among other things, (1) addresses management's responsibilities related to the audit and confirms certain representations made during the audit, including, management's acknowledgement of its responsibility for the design and implementation of programs and controls to prevent and detect fraud; (2) management's knowledge of fraud or suspected fraud affecting the District involving management, employees who have a significant roles in internal control or others where fraud could have a material effect on the financial statements; and (3) management's knowledge of any allegations of fraud or suspected fraud affecting the District, received in communications from employees or others. The representation letter will also affirm to us that management believes that the effects of any uncorrected misstatements aggregated pertaining to the current year financial statements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. CB&H will rely on the District's management providing these representations to us, both in the planning and performance of the audit, and in considering the fees that we will charge to perform the audit.

AUDIT PROCEDURES – GENERAL

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and fraud, or illegal acts that come to our attention during the course of our audit. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

AUDIT PROCEDURES – INTERNAL CONTROLS

Our audit will include obtaining an understanding of the District and its environment, including internal controls, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133 and the State Single Audit Implementation Act, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operations of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133 and the State Single Audit Implementation Act.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards, *Government Auditing Standards*, OMB Circular A-133 and the State Single Audit Implementation Act.

AUDIT PROCEDURES - COMPLIANCE

As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of the District's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 and the State Single Audit Implementation Act requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of the applicable procedures described in the OMB Circular A-133 Compliance Supplement for the types of compliance requirements that could have a direct and material effect of each of the District's major programs. The purpose of those procedures will be to express an opinion on the District's compliance with requirements applicable to major programs in our report on compliance issued pursuant to OMB Circular A-133 and the State Single Audit Implementation Act.

COMMUNICATIONS

As part of this engagement we will ensure that certain additional matters are communicated to the appropriate members of management and the District's governing body. Such matters include (1) our responsibility under GAAS; (2) the initial selection of and changes in significant accounting policies and their application; (3) our independence with respect to the District; (4) the process used by management in formulating particularly sensitive accounting estimates and the basis for our conclusion regarding the reasonableness of those estimates; (5) audit adjustments that could, in our judgment, either individually or in the aggregate be significant to the financial statements or our report; (6) any disagreements with management concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements; (7) our views about matters that were the subject of management's consultation with other accountants about auditing and accounting matters; (8) major issues that were discussed with management in connection with the retention of our services, including, among other matters, any discussions regarding the application of accounting principles and auditing standards; and (9) serious difficulties that we encountered in dealing with management related to the performance of the audit.

Government Auditing Standards require that we provide you with a copy of our most recent quality control review report. Our most recent peer review report, letter of comment and our response accompanies this letter.

DATA COLLECTION FORM

At the conclusion of the engagement, we will complete the auditor sections of the Data Collection Form that summarizes our audit findings, if applicable. We will also complete the electronic auditor certification once the form is complete. Management will be responsible for the completion of the auditee sections of the data collection form, and for uploading the reporting package (including financial statements, schedules of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) to the federal clearing house web site. Management will also be responsible for electronically submitting the completed package. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period.

ACCESS TO WORKING PAPERS

The working papers for the engagement are the property of CB&H and constitute confidential information. Except as discussed below, any requests for access to our working papers will be discussed with you prior to making them available to requesting parties.

The workpapers for this engagement will be retained for a minimum of three years after the date the auditors' report is issued or for any additional period requested by the District. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the workpapers.

CB&H, as well as all other major accounting firms, participates in a "peer review" program, covering our audit and accounting practices. This program requires that once every three years we subject our quality assurance practices to an examination by another accounting firm. As part of the process, the other firm will review a sample of our work. It is possible that the work we perform for you may be selected by the other firm for their review. If it is, they are bound by professional standards to keep all information confidential. If you object to having the work we do for you reviewed by our peer reviewer, please notify us in writing.

USE OF THIRD PARTY SERVICE PROVIDERS

CB&H may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures and safeguards to protect the confidentiality of your information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your information with the third-party service provider. Furthermore, CB&H will remain responsible for the work provided by any such third-party service providers.

SUBPOENAS

In the event we are requested or authorized by you or required by government regulation, subpoena, or other legal process to produce our working papers or our personnel as witnesses with respect to our engagement for you, you will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expense, as well as the fees and expenses of our counsel, incurred in responding to such a request.

TERMS AND CONDITIONS SUPPORTING FEE

As a result of our planning process, the District and CB&H have agreed to a fee, subject to the following conditions.

To facilitate meeting our mutual objectives, the District will provide in a timely manner audit schedules and supporting information, including timely communication of all significant accounting and financial reporting matters, as well as working space and clerical assistance as mutually agreed upon and as is normal and reasonable in the circumstances. When and if for any reason the District is unable to provide such schedules, information and assistance, CB&H and the District will mutually revise the fee to reflect additional services, if any, required of us to achieve these objectives.

In providing our services, we will consult with the District with respect to matters of accounting, financial reporting, or other significant business issues. Accordingly, time necessary to affect a reasonable amount of such consultation is reflected in our fee. However, should a matter require research, consultation, or audit work beyond that amount, CB&H and the District will agree to an appropriate revision in services and fee.

This fee estimate is based on anticipated full cooperation from your personnel, the assumption unexpected circumstances will not be encountered during the audit. Our estimated fee does not include assistance in bookkeeping or other accounting services not previously described. If any such additional accounting or bookkeeping assistance is necessary to complete the accounting for the year under audit, we will discuss this with you and arrive at a new fee estimate before we incur the additional costs. Any modification to the fee shall be in writing and signed by both parties.

Except for any changes in fees, which may result from the circumstances described above, our fees will be limited to those set forth below.

Mr. W. Scott Powell, Director of Finance
Metropolitan Sewerage District of Buncombe County, North Carolina
February 8, 2010
Page 8

FEE

Financial Audit - Our fees for these services will be based upon our customary billing practices at the time of the engagement. Bills for services will be rendered as work progresses and are due upon approval of the Local Government Commission. A service charge will be added to past due accounts equal to 1 1/2% per month (18% annual rate) on the previous month's balance less payments received during the month, with a minimum charge of \$2.00 per month. The fee for our audit as described in this letter will not exceed \$52,710.

Except for any changes in fees, which may result from the circumstances described above, our fees will be limited to those set forth below. You agree to pay all costs of collection (including reasonable attorneys' fees) that we may incur in connection with the collection of unpaid invoices.

OTHER MATTERS

If any dispute, controversy or claim arises in connection with the performance or breach of this agreement, either party may, on written notice to the other party, request that the matter be mediated. Such mediation would be conducted by a mediator appointed by and pursuant to the rules of the American Arbitration Association ("AAA") or such other neutral facilitator acceptable to both parties. Both parties would exert their best efforts to discuss with each other in good faith their respective positions in an attempt to finally resolve such dispute, controversy or claim.

The District and CB&H both agree that any dispute over fees charged by CB&H to the District will be submitted for resolution by arbitration in accordance with the Rules for Professional Accounting and Related Services Disputes of the AAA. Any award rendered by the Arbitrator pursuant to this Agreement may be filled and entered and shall be enforceable in the Superior Court of the County in which the arbitration proceeds. *In agreeing to arbitration, we both acknowledge that, in event of a dispute over fees charge by CB&H, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury and instead we are accepting the use of arbitration for resolution.*

The prevailing party shall be entitled to an award of reasonable attorneys' fees and costs incurred in connection with the arbitration of the dispute in an amount to be determined by the arbitrator. If the foregoing is in accordance with your understanding, please sign a copy of this letter in the space provided and return it to us. If you have any questions, please call Russell Coleman at 704-377-1678.

Very truly yours,

Cheng Bekert + Holland, L.L.P.

Enclosure

RESPONSE:

This letter correctly sets forth the understanding of the District

By: _____

Title: _____



August 30, 2007

To the Partners of
Cherry Bekaert & Holland L.L.P.
and the Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Cherry Bekaert & Holland L.L.P. (the firm) applicable to non-SEC issuers in effect for the year ended April 30, 2007. The firm's accounting and auditing practice applicable to SEC issuers was not reviewed by us since the Public Company Accounting Oversight Board (PCAOB) is responsible for inspecting that portion of the firm's accounting and auditing practice in accordance with PCAOB requirements. A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of complying with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (the AICPA). The design of the system, and compliance with it, are the responsibilities of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with the system based on our review.

Our review was conducted in accordance with standards established by the Peer Review Committee of the Center for Public Company Audit Firms and included procedures to plan and perform the review that are summarized in the attached description of the peer review process. Our review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it since it was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control for the accounting and auditing practice applicable to the non-SEC issuers of Cherry Bekaert & Holland L.L.P. in effect for the year ended April 30, 2007, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA, and was complied with during the year then ended to provide the firm with reasonable assurance of complying with applicable professional standards.

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Offices in 13 states and Washington, DC



As is customary in a peer review, we have issued a letter under this date that sets forth comments relating to certain policies and procedures or compliance with them. The matters described in the letter were not considered to be of sufficient significance to affect the opinion expressed in this report.

Clifton Gunderson LLP

**Attachment to the Peer Review Report of Cherry Bekaert & Holland L.L.P.
Description of the Peer Review Process**

Overview

Firms enrolled in the AICPA Center for Public Company Audit Firms (the Center) Peer Review Program have their system of quality control periodically reviewed by independent peers. These reviews are system and compliance oriented with the objectives of evaluating whether:

The reviewed firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers has been designed to meet the requirements of the Quality Control Standards established by the AICPA.

The reviewed firm's quality control policies and procedures applicable to non-SEC issuers were being complied with to provide the firm with reasonable assurance of complying with professional standards.

A peer review is based on selective tests and directed at assessing whether the design of and compliance with the firm's system of quality control for its accounting and auditing practice applicable to non-SEC issuers provides the firm with reasonable, not absolute, assurance of complying with professional standards. Consequently a peer review on the firm's system of quality control is not intended to, and does not, provide assurance with respect to any individual engagement conducted by the firm or that none of the financial statements audited by the firm should be restated.

The Center's Peer Review Committee (PRC) establishes and maintains peer review standards. At regular meetings and through report evaluation task forces, the PRC considers each peer review, evaluates the reviewer's competence and performance, and examines every report, letter of comments, and accompanying response from the reviewed firm that states its corrective action plan before the peer review is finalized. The Center's staff plays a key role in overseeing the performance of peer reviews working closely with the peer review teams and the PRC.

Once the PRC accepts the Peer review reports, letters of comments, and reviewed firms' responses, these documents are maintained in a file available to the public. In some situations, the public file also includes a signed undertaking by the firm agreeing to specific follow-up action requested by the PRC.

Firms that perform audits or play a substantial role in the audit of one or more SEC issuers, as defined by the Public Company Accounting Oversight Board (PCAOB), are required to be registered with and have their accounting and auditing practice applicable to SEC issuers inspected by the PCAOB. Therefore, we did not review the firm's accounting and auditing practice applicable to SEC issuers.

Planning the Review for the Firm's Accounting and Auditing Practice Applicable to Non-SEC Issuers

To plan the review of Cherry Bekaert & Holland L.L.P., we obtained an understanding of (1) the nature and extent of the firm's accounting and auditing practice, and (2) the design of the firm's system of quality control sufficient to assess the inherent and control risks implicit in its practice. Inherent risks were assessed by obtaining an understanding of the firm's practice, such as the industries of its clients and other factors of complexity in serving those clients, and the organization of the firm's personnel into practice units. Control risks were assessed by obtaining an understanding of the design of the firm's system of quality control, including its audit methodology, and monitoring procedures. Assessing control risk is the process of evaluating the effectiveness of the reviewed firm's system of quality control in preventing the performance of engagements that do not comply with professional standards.

Performing the Review for the Firm's accounting and Auditing Practice Applicable to Non-SEC Issuers

Based on our assessment of the combined level of inherent and control risks, we identified practice units and selected engagements within those units to test for compliance with the firm's system of quality control. The engagements selected for review included engagements performed under the Government Auditing Standards, multi-office audits, and audits of Employee Benefit Plans. The engagements selected for review represented a cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagement reviews included examining working paper files and reports and interviewing engagement personnel.

The scope of the peer review also included examining selected administrative and personnel files to determine compliance with the firm's policies and procedures for the elements of quality control pertaining to independence, integrity, and objectivity; personnel management; and acceptance and continuance of clients and engagements. Prior to concluding the review, we reassessed the adequacy of scope and conducted a meeting with firm management to discuss our findings and recommendations.



August 30, 2007

To the Partners of
Cherry Bekaert & Holland L.L.P.
and the Center for Public Company Audit Firms Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Cherry Bekaert & Holland L.L.P. (the firm) applicable to non-SEC issuers in effect for the year ended April 30, 2007 and have issued our report thereon dated August 30, 2007. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report, which should be read in conjunction with this letter.

Engagement Performance

Comment – The firm’s audit programs outline steps for performing and documenting audit procedures for obtaining representation letters, testing federal funds expended in single audits, and using sampling in the audit process. However, our review disclosed several instances where the firm’s working papers did not include adequate documentation for understanding and testing controls regarding federal funds or for the use of sampling in substantive and control tests. In addition, several representation letters did not contain appropriate dates or did not cover the periods presented in the financial statements. Through discussion with engagement personnel, we were able to satisfy ourselves that the procedures were performed but were not adequately documented for single audits and sampling instances. The representation letter deficiencies were individually not significant.

Recommendation – The firm should remind all professionals of the matters to be considered when documenting procedures performed in the above areas and when obtaining representation letters. The firm should consider conducting a training session to highlight the documentation matters noted during the review. Increased emphasis should also be placed on the accuracy of dates and years incorporated in the representation letters obtained during the course of engagements. Reviewers of audit engagements should monitor these areas closely.

Comment – The firm’s quality control procedures require compliance with professional standards including review of client controls and communication of any weaknesses or deficiencies noted. We found in several instances that the firm identified such issues but did not document communication of such issues or did not document clearly the type of deficiency being communicated. Based on discussions with firm personnel, these items were communicated to clients but not adequately documented.

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www.cliftoncpa.com

Offices in 13 states and Washington, DC



Recommendation – The firm should re-emphasize its policies and procedures for communicating control weaknesses or deficiencies and hold a training session to review such procedures. In addition, all reviewers should closely monitor the communication of these matters and determine that they are clearly identified as to the type of weakness or deficiency.

Clifton Gunderson LLP



September 20, 2007

Center for Public Company Audit Firms Peer Review Committee
American Institute of Certified Public Accountants
Practice Monitoring Department
220 Leigh Farm Road
Durham, NC 27727-8110

This letter represents our responses to the letter of comments issued in connection with our firm's peer review for the year ended April 30, 2007, and should be read in conjunction with that letter.

The Firm will issue communications to all professionals to focus their attention on the matters noted in the peer review. In addition, these matters will be the focus of training sessions to be conducted in the near future. The items noted in the peer review will also be given emphasis in the design and delivery of future professional development programs for all levels of professionals.

The communications and training described above will emphasize the necessity of ensuring complete documentation in all areas of the audit, especially (i) accurate completion and review of the Firm's standardized sampling forms to ensure that our documentation with respect to sampling applications is appropriate, (ii) obtaining a well tailored representation letter that accurately addresses all periods covered by the Firm's opinion and that is dated consistent with that opinion, (iii) accurate completion and review of documentation of controls applicable to the expenditures of federal funds and (iv) ensuring that communications of client control matters noted during audits of financial statements are adequately documented. In addition, we will hold a training session for all of our second partner quality reviewers during which we will reinforce the need for those reviewers to specifically review the items noted in the peer review.

Cherry, Bekaert & Holland, L.L.P.

CONTRACT TO AUDIT ACCOUNTS

Of Metropolitan Sewerage District of Buncombe County
Governmental Unit

On this 8th day of February, 2010, Cherry, Bekaert & Holland, L.L.P.

Auditor

1111 Metropolitan Avenue, Suite 1000, Charlotte, North Carolina 28204

Mailing Address

, hereinafter referred to as

the Auditor, and Commissioners of Metropolitan Sewerage District of Buncombe County, hereinafter referred
Governing Board Governmental Unit

to as the Governmental Unit, agree as follows:

1. The Auditor shall audit all statements and disclosures required by generally accepted accounting principles and additional required legal statements and disclosures of all funds and/or divisions of the Governmental Unit for the period beginning July 1, 2009, and ending June 30, 2010. The non-major combining, and individual fund statements and schedules shall be subjected to the auditing procedures applied in the audit of the basic financial statements and an opinion will be rendered in relation to (as applicable) the governmental activities, the business-type activities, the aggregate discretely presented component units, each major governmental and enterprise fund, and the aggregate remaining fund information (nonmajor government and enterprise funds, the internal service fund type, and the fiduciary fund types).
2. At a minimum, the Auditor shall conduct his/her audit and render his/her report in accordance with generally accepted auditing standards. The Auditor shall perform the audit in accordance with Government Auditing Standards if required by the State Single Audit Implementation Act, as codified in G.S. 159-34. If required by OMB Circular A-133 and the State Single Audit Implementation Act, the auditor shall perform a Single Audit. This audit and all associated workpapers may be subject to review by Federal and State agencies in accordance with Federal and State laws, including the staffs of the Office of State Auditor (OSA) and the LGC. If the audit and/or workpapers are found in this review to be substandard, the results of the review may be forwarded to the North Carolina State Board of CPA Examiners.
3. *This contract contemplates an unqualified opinion being rendered.* If financial statements are not prepared in accordance with generally accepted accounting principles (GAAP), or the statements fail to include all disclosures required by GAAP, explain that departure from GAAP in the space below:
4. *This contract contemplates an unqualified opinion being rendered.* The audit shall include such tests of the accounting records and such other auditing procedures as are considered by the Auditor to be necessary in the circumstances. *Any limitations or restrictions in scope which would lead to a qualification should be fully explained in an attachment to this contract.* The audit will have no scope limitations except:
5. If this audit engagement is subject to the standards for audit as defined in Government Auditing Standards, July 2007 revisions, issued by the Comptroller General of the United States, then the Auditor warrants by accepting this engagement that he has met the requirements for a peer review and continuing education as specified in Government Auditing Standards. The Auditor agrees to provide a copy of their most recent peer review report to the Governmental Unit and the Secretary of the Local Government Commission prior to the execution of the audit contract. (See Item 21.)
6. It is agreed that time is of the essence in this contract. All audits are to be performed and the report of audit submitted to the LGC by October 31, 2010. If it becomes necessary to amend the due date of the audit a written explanation of the delay must accompany the amended contract.
7. It is agreed that generally accepted auditing standards include a review of the Governmental Unit's system of internal control and accounting as same relates to accountability of funds and adherence to budget and law requirements applicable thereto; that the Auditor will make a written report, which may or may not be a part of the written report of audit, to the Governing Board setting forth his findings, together with his recommendations for improvement. That written report must include all matters defined as "significant deficiencies and material weaknesses" in AU 325 of the AICPA Professional Standards. The Auditor shall file a copy of that report with the Secretary of the Local Government Commission.
8. All local government and public authority contracts for annual or special audits, bookkeeping or other assistance necessary to prepare the Unit's records for audit, financial statement preparation, any finance-related investigations, or any other audit-related work in the State of North Carolina require the approval of the Secretary of the Local Government Commission. Invoices for services rendered under these contracts shall not be paid by the Governmental Unit until the invoice has been approved by the Secretary of the Local Government Commission. (This also includes any progress billings.) [G.S. 159-34 and 115C-447] All invoices should be submitted in triplicate to the Secretary of the Local Government Commission. The original and one copy will be returned to the Auditor. Approval is not required on contracts and invoices for system improvements and similar services of a non-auditing nature.
9. In consideration of the satisfactory performance of the provisions of this agreement, the Governmental Unit shall pay to the Auditor, upon approval by the Secretary of the Local Government Commission, the following fee which includes any cost the Auditor may incur from work paper or peer reviews or any other quality assurance program required by third parties (Federal and State grantor and oversight agencies or other organizations) as required under the Federal and State Single Audit Acts:

Year-end bookkeeping assistance – [*For audits subject to Government Auditing Standards, this is limited to bookkeeping services permitted by revised Independence Standards*] N/A

Audit – \$43,210 + \$5,000 for single audit + expenses not to exceed \$4,500; total not to exceed \$52,710

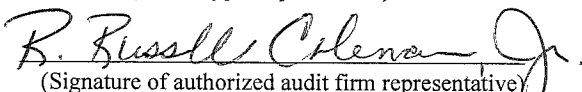
Preparation of the financial statements – N/A

10. After completing the audit, the Auditor shall submit to the Governing Board a written report of audit. This report shall include, at least, Management's Discussion and Analysis, the financial statements of the governmental unit and all of its component units and notes thereto prepared in accordance with generally accepted accounting principles, combining and supplementary information requested by the client or required for full disclosure under the law, and the Auditor's opinion on the material presented. The Auditor shall furnish the required number of copies of the report of audit to the Governing Board as soon as practical after the close of the accounting period.

11. **The Auditor shall file** with the Local Government Commission two bound copies of the report of audit. In addition, if the North Carolina Office of the State Auditor designates certain programs to be audited as major programs, a turnaround document and a representation letter addressed to the State Auditor shall be submitted to the Local Government Commission. Two bound copies of the report of audit should be submitted if the audit is performed only under the provisions of the State Single Audit Implementation Act or a financial audit is required to be performed in accordance with Government Auditing Standards. Three bound copies of the audit are to be submitted for Councils of Governments. Two bound copies of the audit should be submitted for tax levying Municipalities. Otherwise, one bound copy shall be submitted. Bound copies of the report shall be filed with the Local Government Commission when (or prior to) submitting the invoice for the services rendered. The report of audit, as filed with the Secretary of the Local Government Commission, becomes a matter of public record for inspection and review in the offices of the Secretary by any interested parties. Any subsequent revisions to these reports must be sent to the Secretary of the Local Government Commission. These audited financial statements are used in the preparation of Official Statements for debt offerings (the auditors' opinion is not included), by municipal bond rating services, to fulfill secondary market disclosure requirements of the Securities and Exchange Commission, and other lawful purposes of the government, without subsequent consent of the auditor.
14. Should circumstances disclosed by the audit call for a more detailed investigation by the Auditor than necessary under ordinary circumstances, the Auditor shall inform the Governing Board in writing of the need for such additional investigation and the additional compensation required therefore. Upon approval by the Secretary of the Local Government Commission, this agreement may be varied or changed to include the increased time and/or compensation as may be agreed upon by the Governing Board and the Auditor.
15. If an approved contract needs to be varied or changed for any reason, the change must be made in writing, signed and dated by all parties and preaudited if the change includes a change in audit fee. This document and a written explanation of the change must be submitted in triplicate to the Secretary of the Local Government Commission for approval. No change shall be effective unless approved by the Secretary of the Local Government Commission, the Governing Board, and the Auditor.
16. Whenever the Auditor uses an engagement letter with the client, Item 17 is to be completed by referencing the engagement letter and attaching a copy of the engagement letter to the contract to incorporate the engagement letter into the contract. In case of conflict between the terms of the engagement letter and the terms of this contract, the terms of this contract will control. Engagement letter terms are deemed to be void unless the conflicting terms of this contract are specifically deleted in Item 22 of this contract. Engagement letters containing indemnification clauses will not be approved by the Local Government Commission.
17. There are no special provisions except:
See attached engagement letter.
18. A separate contract should not be made for each division to be audited or report to be submitted. A separate contract must be executed for each component unit which is a local government and for which a separate audit report is issued.
19. The contract must be executed, pre-audited, signed by all parties and submitted in triplicate to the Secretary of the Local Government Commission. The mailing address is 325 North Salisbury Street, Raleigh, North Carolina 27603-1385. The physical address is 4505 Fair Meadow Lane, Suite 102, Raleigh, North Carolina 27607-6449.
20. The contract is a tri-party agreement and is not valid until it is approved by the Local Government Commission. Upon approval, the original contract will be returned to the Governmental Unit, a copy will be forwarded to the Auditor, and a copy retained by the Secretary of the Local Government Commission. The audit should not be started before the contract is approved.
21. There are no other agreements between the parties hereto and no other agreements relative hereto that shall be enforceable unless entered into in accordance with the procedure set out herein and approved by the Secretary of the Local Government Commission.
22. If this audit engagement is not subject to Government Auditing Standards, then Item 5 shall be listed as a deleted provision in Item 23. An explanation must be given for deleting this provision.
23. All of the above paragraphs are understood and shall apply to this agreement, except the following numbered paragraphs shall be deleted: (See Item 16.)

Firm Cherry, Bekaert & Holland, L.L.P.

By R. Russell Coleman, Jr.
(Please type or print name)


(Signature of authorized audit firm representative)

Date February 8, 2010

Approved by the Secretary of the Local Government Commission as provided in Article 3, Chapter 159 of the General Statutes or Article 31, Part 3, Chapter 115C of the General Statutes.

For the Secretary, Local Government Commission

(Signature)

Date _____

By _____
(Please type or print name and title)

(Signature of Mayor/Chairperson of governing board)

Date _____

By _____
(Chair of Audit Committee- please type or print name)

(Signature of Audit Committee Chairperson)

Date _____
(If unit has no audit committee, this section should be marked "N/A.")

This instrument has been preaudited in the manner required by The Local Government Budget and Fiscal Control Act or by the School Budget and Fiscal Control Act.

Governmental Unit Finance Officer (Please type or print name)

(Signature)

Date _____

(Preaudit Certificate must be dated.)

Metropolitan Sewerage District of Buncombe County BOARD INFORMATIONAL ITEM

Meeting Date: March 17, 2010
Submitted By: Thomas E. Hartye, PE., General Manager
Prepared By: W. Scott Powell, Director of Finance
Subject: Cash Commitment/Investment Report-Month Ended January 31, 2010

Background

Each month, staff presents to the Board an investment report for all monies in bank accounts and specific investment instruments. The total investments as of January 31, 2010 were \$49,828,860. The detailed listing of accounts is available upon request. The average rate of return for all investments is 1.771%. These investments comply with North Carolina General Statutes, Board written investment policies and the District's Bond Order.

The attached investment report represents cash and cash equivalents as of January 31, 2010 does not reflect contractual commitments or encumbrances against said funds. Shown below are the total investments as of January 31, 2010 reduced by contractual commitments, bond funds, and District reserve funds. The balance available for future capital outlay is \$16,006,832.

Total Cash & Investments as of 1/31/2010		49,828,860
Less:		
Budgeted Commitments (Required to pay remaining FY10 budgeted expenditures from unrestricted cash)		
Construction Funds	(15,278,763)	
Operations & Maintenance Fund	(6,407,095)	
		(21,685,858)
Bond Restricted Funds		
Bond Service (Funds held by trustee):		
Funds in Principal & Interest Accounts	(67,117)	
Debt Service Reserve	(2,560,524)	
Remaining Principal & Interest Due	(6,154,144)	
		(8,781,785)
District Reserve Funds		
Fleet Replacement	(923,908)	
WWTP Replacement	(905,167)	
Maintenance Reserve	(806,123)	
		(2,635,198)
Post-Retirement Benefit		(60,644)
Self-Funded Employee Medical		(658,543)
Designated for Capital Outlay		16,006,832

Staff Recommendation

None. Information Only.

Action Taken

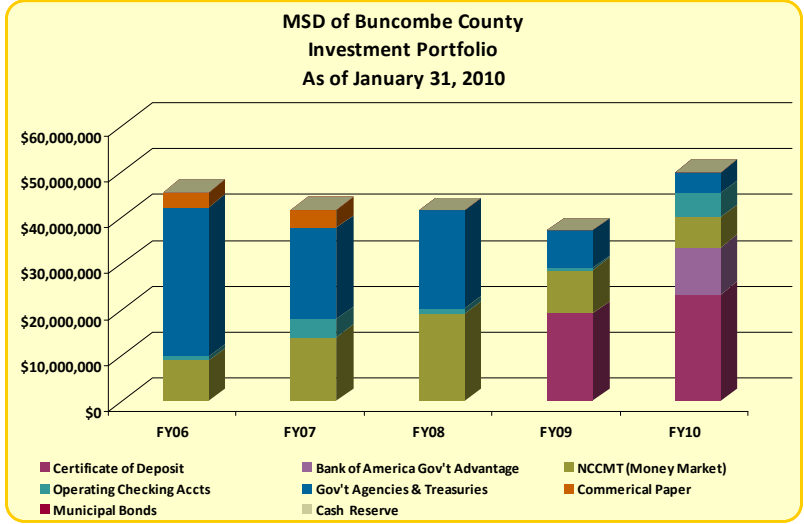
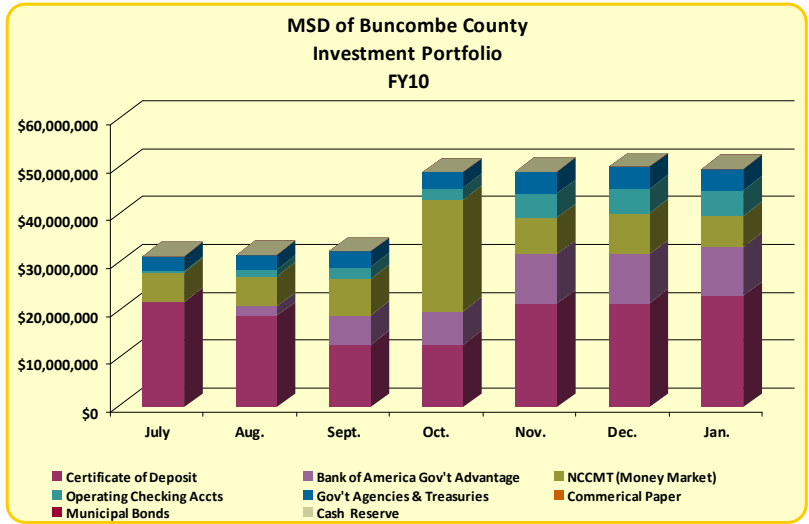
Motion by:	to	Approve Table	Disapprove Send to Committee
Second by:			
Other:			
Follow-up required:			
Person responsible:			Deadline:

Metropolitan Sewerage District of Buncombe County Investment Portfolio

Held with Bond Trustee
Held by MSD

Cash in Operating Checking Accounts	Bank of America Gov't Advantage	NCCMT (Money Market)	Certificate of Deposit	Commercial Paper	Municipal Bonds	Cash Reserve	Gov't Agencies & Treasuries	Total
\$ -		\$ 111,758				\$ -	\$ 2,515,883	\$ 2,627,641
5,269,474	10,282,677	6,356,731	23,269,837	-	-		2,022,500	47,201,219
\$ 5,269,474	\$ 10,282,677	\$ 6,468,489	\$ 23,269,837	\$ -	\$ -	\$ -	\$ 4,538,383	\$ 49,828,860

Investment Policy Asset Allocation Maximum	Maximum Percent	Actual Percent
U.S. Government Treasuries, Agencies and Instrumentalities	100.00%	9.11%
Bankers' Acceptances	20.00%	0.00%
Certificates of Deposit	100.00%	46.70%
Commercial Paper	20.00%	0.00%
North Carolina Capital Management Trust	100.00%	12.98%
Checking Accounts	100.00%	31.21%



Board Meeting

March 17, 2010

Subject: Cash Commitment/Investment Report-Month Ended January 31, 2010

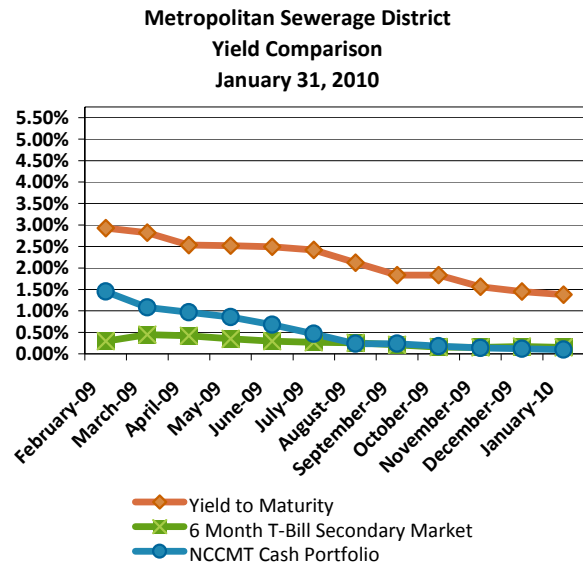
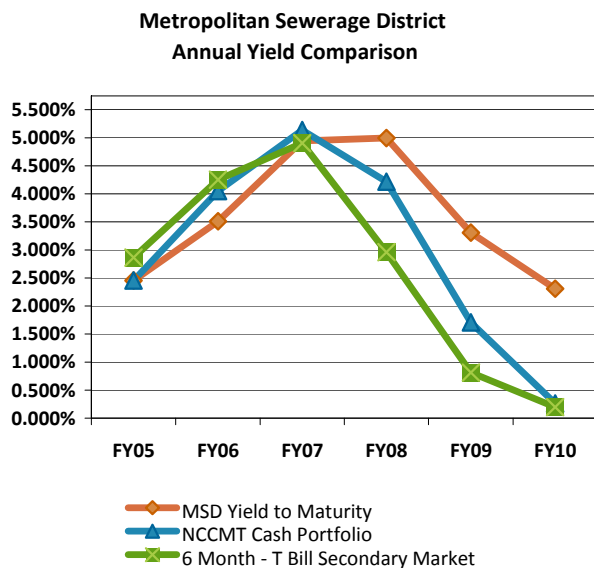
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**METROPOLITAN SEWERAGE DISTRICT
INVESTMENT MANAGERS' REPORT
AT JANUARY 31, 2010**

<u>Summary of Asset Transactions</u>			
	Original Cost	Market	Interest Receivable
Beginning Balance	\$ 41,146,204	\$ 41,173,084	\$ 216,794
Capital Contributed (Withdrawn)	209,835	209,835	
Realized Income	83,823	83,823	(54,939)
Unrealized/Accrued Income	-	(4,380)	15,579
Ending Balance	\$ 41,439,862	\$ 41,462,362	\$ 177,434

<u>Value and Income by Maturity</u>		
	Original Cost	Income
Cash Equivalents <91 Days	\$ 16,170,025	\$ 15,641
Securities/CD's 91 to 365 Days	23,269,837	\$ 22,508
Securities/CD's > 1 Year	2,000,000	\$ 1,935
	\$ 41,439,862	\$ 40,083

<u>Month End Portfolio Information</u>	
Weighted Average Maturity	100 Days
Yield to Maturity	1.38%
6 Month T-Bill Secondary Market	0.15%
NCCMT Cash Portfolio	0.10%



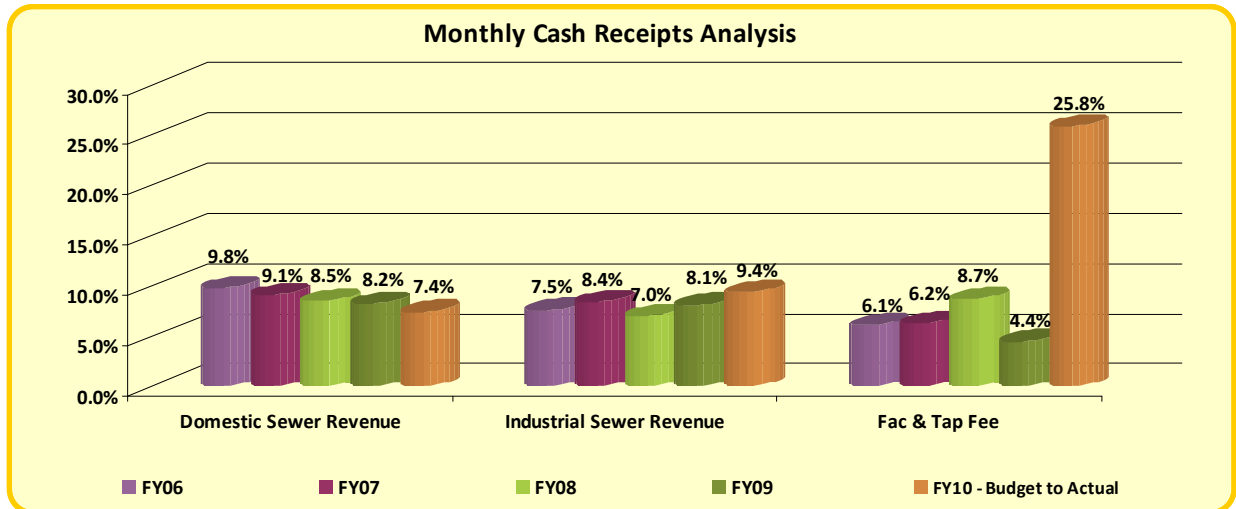
Board Meeting

March 17, 2010

Subject: Cash Commitment/Investment Report-Month Ended January 31, 2010

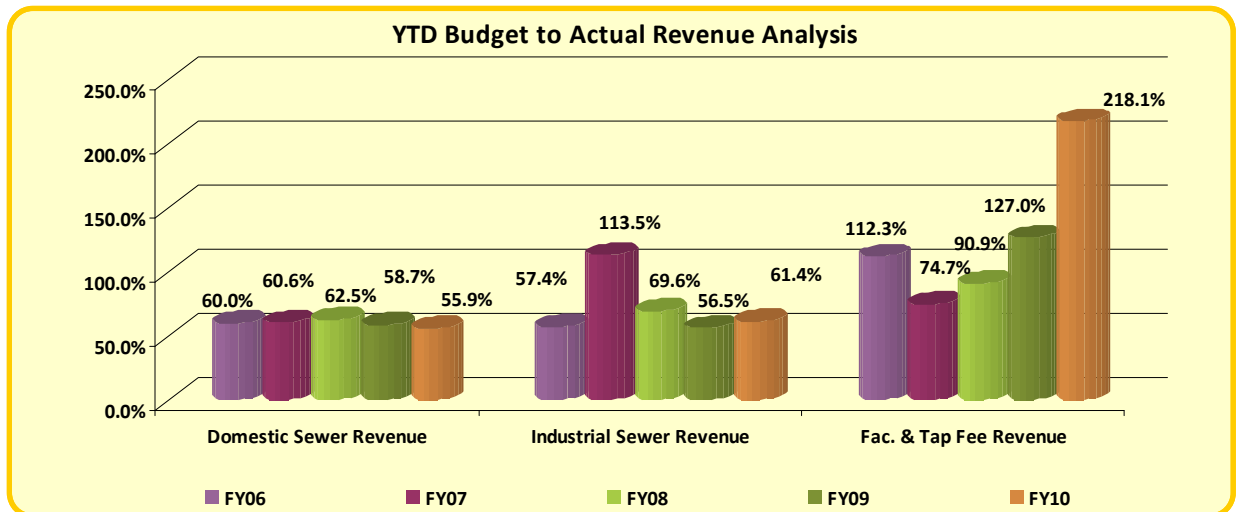
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**METROPOLITAN SEWERAGE DISTRICT
ANALYSIS OF CASH RECEIPTS
AS OF JANUARY 31, 2010**



Monthly Cash Receipts Analysis:

- ▣ Monthly Domestic Sewer Revenue is lower due to timing of one cash receipt in the prior year.
- ▣ Monthly Industrial Sewer Revenue is considered reasonable based on historical trends.
- ▣ Due to the unpredictable nature of facility and tap fee revenue, staff budgets this revenue stream conservatively.
- ▣ Based on that facility and tap fee revenue is considered reasonable.



YTD Budget to Actual Revenue Analysis:

- ▣ YTD Domestic Sewer Revenue is lower due to a wet summer as well as continuing recessionary pressures.
- ▣ YTD Industrial Sewer Revenue is considered reasonable based on historical trends.
- ▣ Due to the unpredictable nature of facility and tap fee revenue, staff budgets this revenue stream conservatively.
- ▣ Based on that facility and tap fee revenue is considered reasonable.

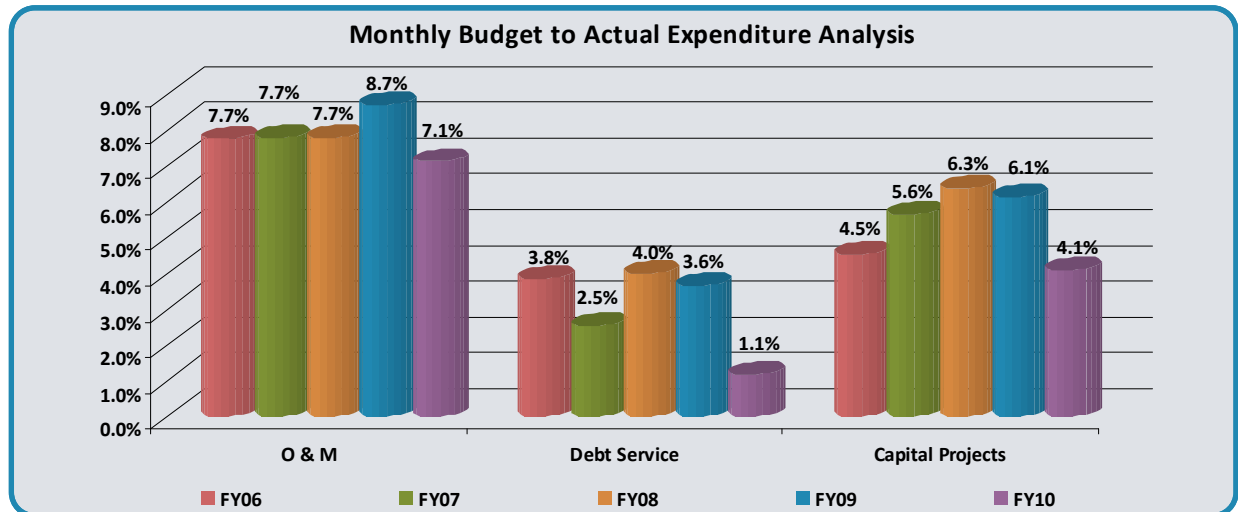
Board Meeting

March 17, 2010

Subject: Cash Commitment/Investment Report-Month Ended January 31, 2010

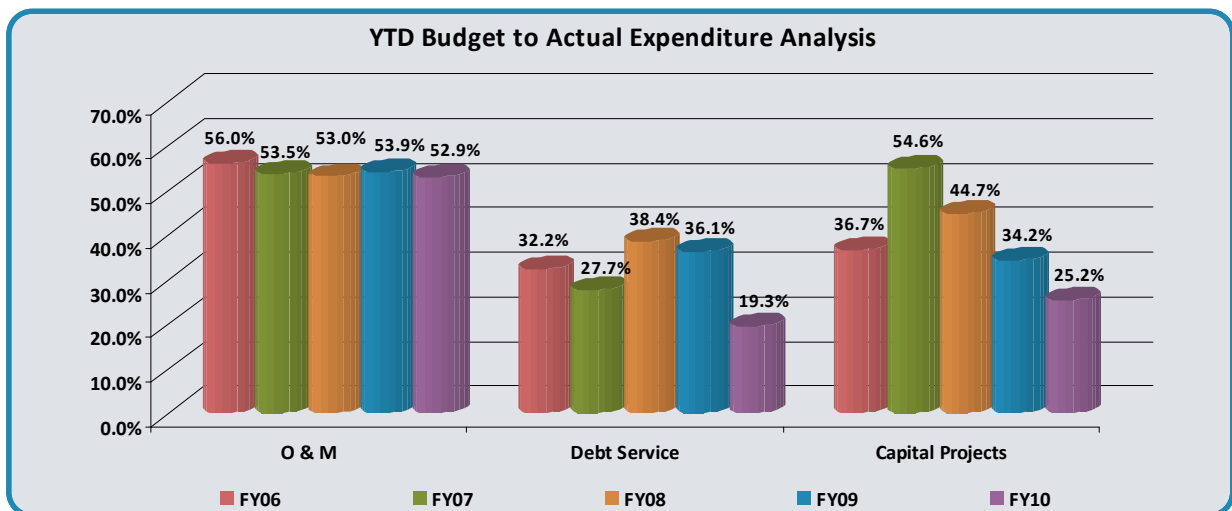
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**METROPOLITAN SEWERAGE DISTRICT
ANALYSIS OF EXPENDITURES
AS OF JANUARY 31, 2010**



Monthly Budget to Actual Expenditure Analysis:

- ◆ Monthly O&M expenditures are considered reasonable based on historical trends.
- ◆ Due to the nature of the variable rate bond market, monthly expenditures can vary year to year.
- ◆ Based on current variable interest rates monthly debt service expenditures are considered reasonable.
- ◆ Due to nature and timing of capital projects, monthly expenditures can vary from year to year. Based on the current outstanding capital projects, monthly capital project expenditures are considered reasonable.



YTD Budget to Actual Expenditure Analysis:

- ◆ YTD O&M expenditures are considered reasonable based on historical trends.
- ◆ Due to the nature of the variable rate bond market, YTD expenditures can vary year to year.
- ◆ Based on current variable interest rates YTD debt service expenditures are considered reasonable.
- ◆ Due to nature and timing of capital projects, YTD expenditures can vary from year to year. Based on the current outstanding capital projects, YTD capital project expenditures are considered reasonable.

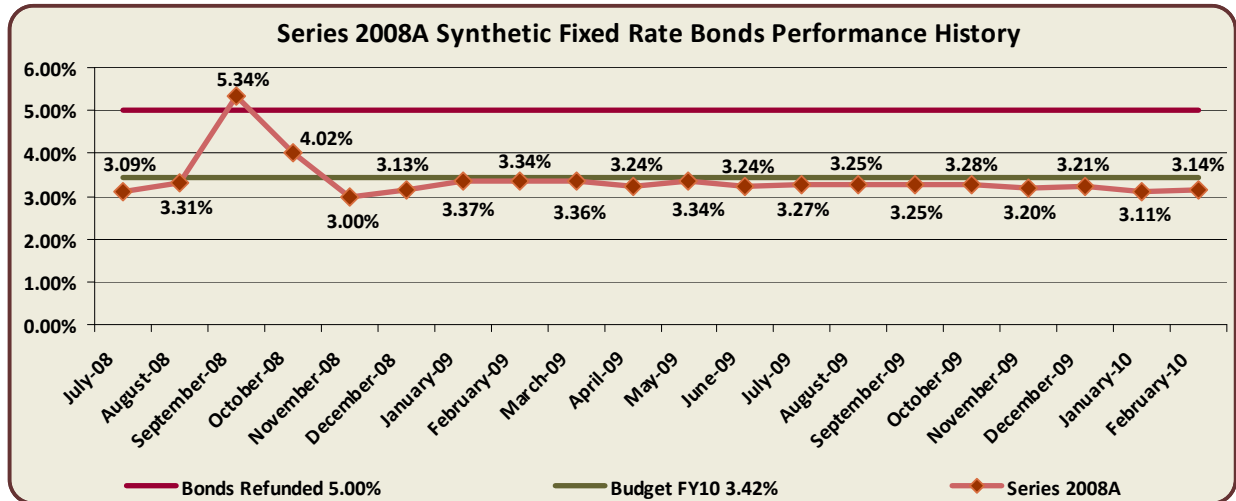
Board Meeting

March 17, 2010

Subject: Cash Commitment/Investment Report-Month Ended January 31, 2010

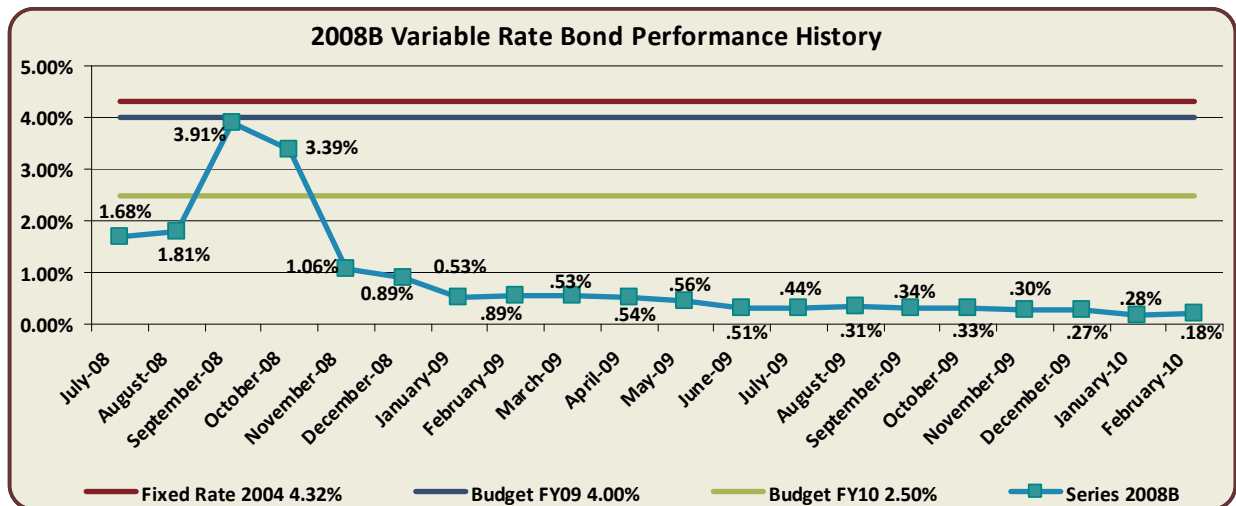
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**METROPOLITAN SEWERAGE DISTRICT
Variable Debt Service Report
As of February 28, 2010**



Series 2008A:

- * Savings to date on the Series 2008A Synthetic Fixed Rate Bonds is \$935,283 as compared to 4/1 fixed rate of 4.83%.
- * Assuming that the rate on the Series 2008A Bonds continue at the current all-in rate of 4.1675%.
- * MSD will achieve cash savings of \$3,503,702 over the life of the bonds.
- * MSD would pay \$2,732,000 to terminate the existing Bank of America Swap Agreement.



Series 2008B:

- * Saving to date on the 2008B Variable Rate Bonds is \$1,315,590 as compared to 5/1 fixed rate of 4.32%
- * Since May 1, 2008, the Series 2008B Bonds average variable rate has been 1.00%.
- * MSD will achieve \$7,337,000 in cash savings over the life of the bonds at the current average variable rate.

STATUS REPORTS

CAPITAL IMPROVEMENT PROGRAM

STATUS REPORT SUMMARY

Current as of March 9, 2010

PROJECT	AWARD DATE	NOTICE TO PROCEED	*COMPLETION DATE	*CONTRACT AMOUNT	*COMPLETION STATUS (WORK)	COMMENTS
BILTMORE AVENUE BRIDGE REPLACEMENT (NCDOT) / THOMPSON STREET SEWER	10/16/2009	10/26/2009	12/9/2009	\$42,068.00	95%	Informal (Terry Brothers) Project is complete and cleaned up with exception of final paving which will wait until Spring and warm weather.
DELANO ROAD - 4 INCH MAINLINE	TBA	TBA	TBA	TBA	0%	Informal Project scheduled to bid on April 8, 2010.
DINGLE CREEK INTERCEPTOR @ CROWFIELDS, PHASE 1	12/16/2009	2/15/2010	5/16/2010	\$85,869.00	0%	Informal (Huntley Construction) Contractor has mobilized and started clearing the area.
EASTWOOD AVENUE @ OLD U.S. 70	9/16/2009	12/2/2009	5/31/2010	\$165,330.00	60%	Informal (T & K Utilities) Mainline construction is progressing very well.
FOREST HILL DRIVE #1 (PRP 11006)	2/17/2010	TBA	TBA	\$147,653.00	0%	Formal (T & K Utilities) Project has been awarded. Preconstruction meeting not yet scheduled.
FOREST HILL DRIVE #2 (PRP 11005)	2/17/2010	TBA	TBA	\$68,590.00	0%	Formal (T & K Utilities) Project has been awarded. Preconstruction meeting not yet scheduled.
LONG SHOALS ROAD (PRP 48002)	6/10/2009	7/6/2009	2/1/2010	\$365,024.50	95%	Formal - ARRA project (Terry Brothers Construction) Project essentially complete. Minor paving issues must wait until Spring.
MIDDLE BEAVERDAM CREEK INTERCEPTOR	7/15/2009	8/31/2009	2/27/2010	\$766,514.00	60%	Formal (Moore & Son) 30-inch and 18-inch mainline construction is complete. Numerous weather delays. Rock excavation has been difficult.
RIVERSIDE DRIVE @ WESTOVER DRIVE	TBA	TBA	TBA	TBA	0%	Informal Project scheduled to bid on April 8, 2010.
TOWN BRANCH INTERCEPTOR	8/19/2009	9/21/2009	2/18/2010	\$726,875.00	28%	Formal (B C & D Associates) Contractor has progressed 140 feet in the second bore (the last 20 feet dug by hand). Multiple obstructions have been encountered in the bore, delaying the boring process.
U.S. HIGHWAY 70 @ NEIL PRICE AVENUE, PHASES I AND II B	12/16/2009	1/18/2010	7/16/2010	\$247,382.70	15%	Formal (Buckeye Construction) Bore is complete. Contractor done with Ingles property and moving across U.S. 70.
WRF - INTERMEDIATE PUMPING REPLACEMENT	7/15/2009	8/19/2009	8/19/2010	\$1,690,788.00	25%	Formal (Hickory Construction) Contractor was directed to build alternate route / plan for the primary electrical feed. Old electrical room has been demolished and the structural portion of the new room is complete. No change from last month.

*Updated to reflect approved Change Orders and Time Extensions

Planning and Development Projects
Status Report March 17, 2010

Status	Project Name	Project Number	Work Location	Units	LF	Pre-Construction Conference Date	Comments
	Gene Bradley Subdivision	2004022	Fletcher	9	420	3/3/2005	Complete-Waiting on final documents
	Davidson Road Sewer Extension	2004154	Asheville	3	109	12/15/2004	Complete-Waiting on final documents
	Riverbend Urban Village	2004206	Asheville	260	1250	8/29/2006	Complete-Waiting on final documents
	N. Bear Creek Road Subdivision	2005137	Asheville	20	127	7/11/2006	Complete - Waiting on final documents
	Willowcreek Village Ph.3	2003110	Asheville	26	597	4/21/2006	Complete - Waiting on final documents
	Westmore Subdivision	2003003	West Asheville	92	1163	8/29/2006	Complete - Waiting on final documents
	Rock Hill Road Subdivision	2005153	Asheville	2	277	8/7/2006	Complete - Waiting on final documents
	Ken Higgins	1999153	Asheville	-	240	6/15/2007	Complete - Waiting on final documents
	Byrd Street Condos	2007085	Asheville	14	300	7/31/2007	Complete - Waiting on final documents
	MWB Sewer Extension	2008046	Asheville	Comm.	285	5/12/2008	Complete - Waiting on final documents
	The Cottages on Liberty Green	2007297	Asheville	7	124	5/30/2008	Complete - Waiting on final documents
	Haw Creek Tract	2006267	Asheville	49	1,817	10/16/2007	Complete - Waiting on final documents
	Haywood Village	2007172	Asheville	55	749	7/15/2008	Complete - Waiting on final documents
	Oak Crest Place	2004056	West Asheville	27	791	12/3/2004	Complete - Waiting on final documents
	Buncombe County Animal Shelter	2007216	Asheville	Comm.	78	5/1/2008	Complete - Waiting on final documents
	Oak Crest Drive	2008138	Asheville	5	290	1/14/2009	Complete - Waiting on final documents
	Lodging at Farm (Gottfried)	2008169	Candler	20	45	6/2/2009	Complete - Waiting on final documents
	Camp Dorothy Walls - Ph. 1	2007294	Black Mtn.	Comm.	593	6/16/2009	Complete - Waiting on final documents
	Momentum Health Adventure	2008097	Asheville	Comm.	184	8/19/2009	Complete - Waiting on final documents
	Honeysuckle Breeze	2007246	Asheville	5	70	9/22/2009	Complete - Waiting on final documents
	Ridgefield Business Park	2004188	Asheville	18	758	2/16/2005	Complete-Waiting on final documents
			Subtotal	612	10,267		

Planning and Development Projects
Status Report March 17, 2010

Status	Project Name	Project Number	Work Location	Units	LF	Pre-Construction Conference Date	Comments
	Crayton Creek Green	2006282	Asheville	10	482	3/15/2007	New developer & Engineer, ready for final
	Grove Park Cove Subdivision	2004101	Asheville	14	1122	6/28/2006	Pre-con held ready for construction
	The Settings (6 Acre Outparcel)	2004192	Black Mountain	21	623	3/15/2006	Ready for final inspection
	McGinnis Sewer Extension	2004225	Asheville	9	48	5/19/2005	In redesign.
	Falcon Ridge	2004240	Asheville	38	3,279	10/11/2006	Ready for final inspection
	Waightstill Mountain PH-8	2006277	Arden	66	3,387	7/26/2007	testing / in foreclosure
	Artisan Park	1998125	West Asheville	133	4,529	4/26/2001	Changed Engineer - work to restart soon
	Brookside Road Relocation	2008189	Black Mtn	n/A	346	1/14/2009	Pre-con held, ready for construction
	Scenic View	2006194	Asheville	48	534	11/15/2006	Ready for final inspection
	Ingles	2007214	Black Mtn.	Comm.	594	3/4/2008	Ready for final inspection
	Bartram's Walk	2007065	Asheville	100	10,077	7/28/2008	testing
	Morgan Property	2008007	Candler	10	1,721	8/11/2008	Pre-con held, ready for construction
	Village at Bradley Branch - Ph. III	2008076	Asheville	44	783	8/8/2008	Ready for final inspection
	Versant Phase I	2007008	Woodfin	64	12,837	2/14/2007	Ready for final inspection
	Canoe Landing	2007137	Woodfin	4	303	5/12/2008	Ready for construction
	Central Valley	2006166	Black Mtn	12	472	8/8/2007	Punchlist pending
	Hominy Valley Center	2005010	Candler	5	433	8/9/2005	Punchlist pending
	Kenilworth Cottages	2008031	Asheville	11	177	5/12/2008	Ready for construction
	CVS-Acton Circle	2005163	Asheville	4	557	5/3/2006	Ready for final inspection
	Hamburg Mountain Phase 3	2004086	Weaverville	13	844	11/10/2005	Ready for final inspection
	UNCA New Science Building	2005039	Asheville	5	538	10/28/2005	Ready for final inspection
	Bostic Place Sewer Relocation	2005102	Asheville	3	88	8/25/2005	Ready for final inspection
	Kyfields	2003100	Weaverville	35	1,118	5/10/2004	Ready for final inspection
	Brotherton Co-Housing	1999162	West Asheville	32	152	1/24/2003	Undergoing redesign by new developer
	Teems Road Subdivision	2007143	Asheville	40	1,308	5/27/2008	Ready for construction
	Thom's Estate	2006309	Asheville	40	3,422	1/24/2008	testing
	Thom's Estate - Phase II	2008071	Asheville	40	3,701	6/10/2008	testing
	Rockwood Apartments - Phase 2	2008109	Asheville	256	4072	1/27/2009	Punchlist pending
	Skyland Apartments	2007117	Arden	63	96	4/23/2008	Installing
	Berrington Village Apartments	2008164	Asheville	308	4,690	5/5/2009	Installing
	Cottonwood Townhomes	2009110	Black Mtn.	8	580	10/20/2009	Installing
	North Point Baptist Church	2008105	Weaverville	Comm.	723	5/20/2009	Ready for final inspection
	The Villages at Crest Mountain	2009049	Asheville	63	1,364	9/9/2009	Pre-con held, ready for construction
	Carolina Hand Surgery	2009063	Asheville	Comm.	298	10/7/2009	Testing
	CVS- Weaverville Hwy	2006301	Woodfin	Comm.	59	8/18/2009	Testing
	Camp Dorothy Walls - Ph. 2	2007294	Black Mtn.	Comm.	593	6/16/2009	Pre-con held, ready for construction
	Forest Manor Complex	2088050	Asheville	Comm.	96	12/4/2008	Ready for final inspection
	Subtotal			2311	82,397		
	Total Units:			2,923			
	Total LF:				92,664		