

***REVIEWED***

***By SLGFD at 7:18 am, Apr 05, 2022***

BAY RIVER METROPOLITAN  
SEWERAGE DISTRICT  
BAYBORO, NORTH CAROLINA

ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2021

# **BAY RIVER METROPOLITAN SEWERAGE DISTRICT**

## **BOARD OF DIRECTORS**

Arthur Kelly  
Chairperson

John Buck  
Vice Chairman

James Spencer

Edward Riggs, JR

Debra Khouri

George Smith

Kelvin Credle

Booker T. Jones

Reginald Hawkins

Steve Lacy

Carl Ollison

# Bay River Metropolitan Sewerage District

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## FINANCIAL SECTION



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Wilmington, North Carolina 28403  
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## **Independent Auditor's Report**

To the Chairperson and  
Members of the Board  
Bay River Metropolitan Sewerage District  
Bayboro, North Carolina

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

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Bay River Metropolitan Sewerage District, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

### ***Opinions***

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Bay River Metropolitan Sewerage District as of June 30, 2021, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Bay River Metropolitan Sewerage District. The individual fund statements and budgetary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements and budgetary schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial

statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the individual fund statements and budgetary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2022 on our consideration of Bay River Metropolitan Sewerage District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bay River Metropolitan Sewerage District's internal control over financial reporting and compliance.

*Thompson, Price, Scott, Adams & Co., PA*

*Wilmington, North Carolina*

*March 1, 2022*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## Management's Discussion and Analysis

As management of the Bay River Metropolitan Sewerage District (MSD or the District), we offer readers of the Bay River Metropolitan Sewerage District's financial statements this narrative overview and analysis of the financial activities of the Bay River Metropolitan Sewerage District for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the District's financial statements, which follow this narrative.

### Financial Highlights

- The assets and deferred outflows of resources of the Bay River Metropolitan Sewerage District exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$11,024,110 (net position).
- The long-term liabilities were decreased by \$213,244 due to timely debt payments.

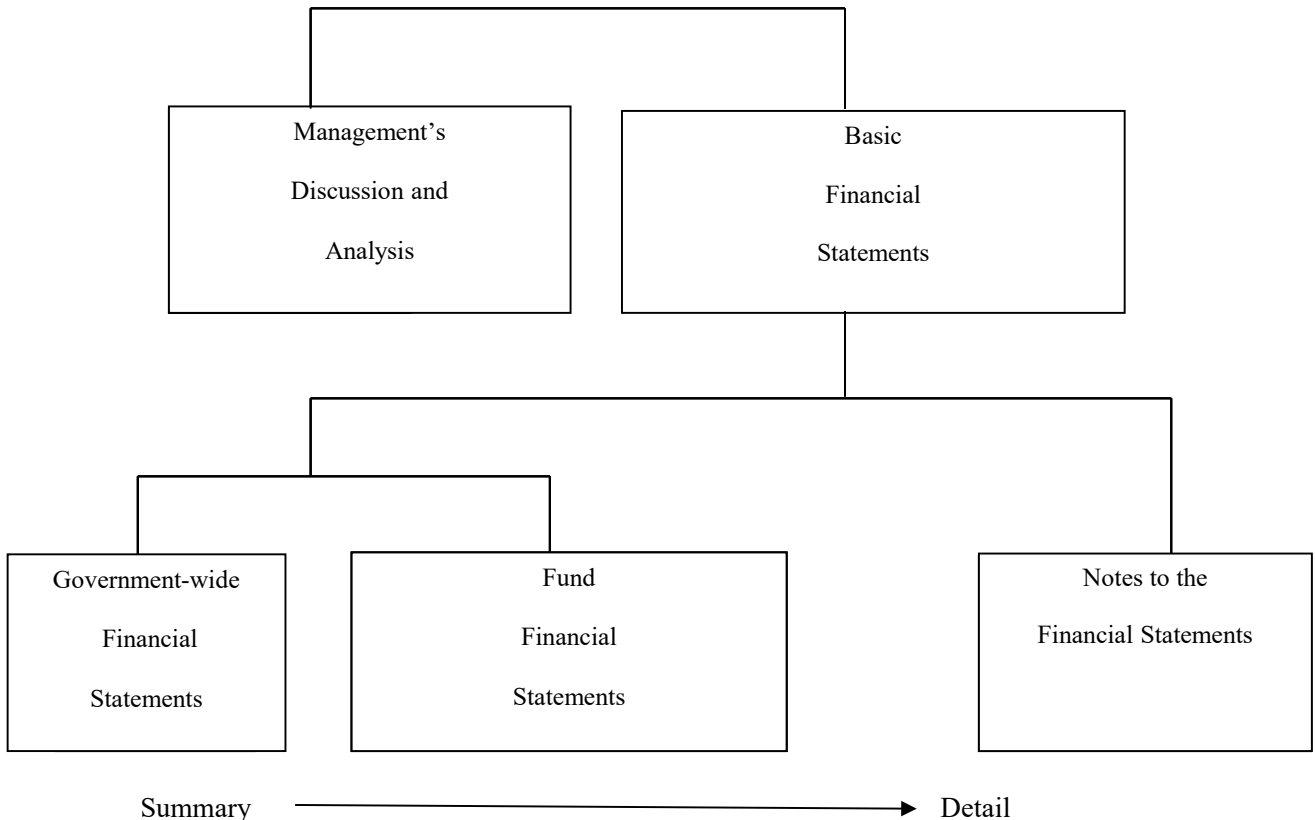
### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Bay River Metropolitan Sewerage District's basic financial statements. The audited financial statements consist of three components. They are as follows:

- Basic Financial Statements
- Notes to the Financial Statements
- Supplementary Information

### Required Components of Annual Financial Report

Figure 1



## **Basic Financial Statements**

The Basic Financial Statements are prepared using the accrual basis of accounting. They consist of three statements as required for utilities engaged only in business-type activities. The first statement is the statement of fund net position. Assets and liabilities are classified between current and long-term. Deferred Inflows and Outflows of Resources are for pension related items. This statement provides a summary of the District's investment in assets and obligations to creditors, and deferred items as of a particular point in time (usually a fiscal period end or a fiscal year end). Liquidity and financial flexibility may be evaluated using the information contained in this statement.

The next statement is the statement of revenues, expenses, and changes in net position which reports financial activity over a period of time such as fiscal month, quarter, or year. This statement tabulated the net increase or decrease in net position from the previous year end and will tie back to the statement of net position. The District may use this statement to evaluate whether it has recovered all of its costs through revenues. Its information is used in determining credit worthiness.

The next statement is the statement of cash flows. This statement reports cash inflows and outflows in the following categories: operating, capital and related financing, noncapital financing, and investing, as applicable. Based on this data, the user may determine the sources of cash, the uses of cash, and the change in cash.

The Notes to the Basic Financial Statements explain in detail some of the data contained in the financial statements. The notes should be read in conjunction with the statements. After the notes required supplemental financial information presents information regarding activity in Local Government Retirement System.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the District's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found following the notes in this report.

## **Fund Financial Statements**

Fund Financial schedule shows all revenues and expenditures using modified accrual basis of accounting. Budgetary information required by N.C. General Statutes is included in this statement. The results of this report are converted to full accrual basis allowing the reader to compare this report with the statements of revenues, expenses, and changes in fund net assets.

## Financial Analysis

Net position may serve over time as one useful indicator of a government's fiscal health. Net investment in capital assets is \$8,807,360 comprised of sewer treatment facilities and collection line systems. Unrestricted net position, totaling \$2,216,750 has no restriction on its use.

**Bay River Metropolitan Sewerage District's Net Position**  
**Figure 2**

	Business-type Activities	
	2021	2020
Current and other assets	\$ 2,453,861	\$ 2,498,995
Capital assets	12,042,216	12,532,913
Deferred outflows of resources	78,416	57,342
Total assets and deferred outflows of resources	14,574,493	15,089,250
Long-term liabilities outstanding	3,148,176	3,329,853
Current liabilities	400,250	307,464
Deferred inflows of resources	1,957	3,151
Total liabilities and deferred inflows of resources	3,550,383	3,640,468
Net position:		
Net investment in capital assets	8,807,360	9,084,813
Unrestricted	2,216,750	2,363,969
Total net position	\$ 11,024,110	\$ 11,448,782

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition.

Net position has three components. The amount of net investment in capital assets is \$8,807,360. Restricted assets represent constraints on resources that are imposed by a third party, another local government or the State government. In the District's case, this amount is \$0. Unrestricted net position is \$2,216,750 and has no constraints and may be used by the District for any compliant purpose.

**Bay River Metropolitan Sewerage District**  
**Changes in Net Position**  
**Figure 3**

	Business-type Activities	
	2021	2020
Revenues:		
Program Revenues		
Charges for services	\$ 1,860,127	\$ 1,879,141
Operating grants and contributions	183,023	723,393
Investment earnings	1,585	9,645
Other	-	17,942
Total revenues	2,044,735	2,630,121
Expenses:		
Interest on long-term debt	100,716	107,402
Water and sewer	2,368,691	2,145,170
Other	-	44,562
Total expenses	2,469,407	2,297,134
Increase (Decrease) in net position	(424,672)	332,987
Net position, July 1	11,448,782	11,115,795
Net position, June 30	<u>\$ 11,024,110</u>	<u>\$ 11,448,782</u>

Revenue decreased by \$585,386 mainly due to grants received in the prior year. The District reported a total decrease in net position of \$424,672 from the prior year.

Management Discussion and Analysis  
Bay River Metropolitan Sewerage District

**Financial Analysis of the District's Funds**

Bay River Metropolitan Sewerage District uses fund accounting to ensure and demonstrate compliance with the finance-related legal requirements including adopting and operating under a budget. The District is a single enterprise fund and uses subfunds to track operating and capital activities in accordance with management objectives.

**Capital Asset and Debt Administration**

**Bay River Metropolitan Sewerage District's Capital Assets  
(net of depreciation)**

**Figure 4**

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated				
Timber	\$ 142,000	\$ -	\$ -	\$ 142,000
Land	582,599	-	-	582,599
Construction in progress	1,823,154	-	-	1,823,154
Total capital assets not being depreciated	<u>2,547,753</u>	<u>-</u>	<u>-</u>	<u>2,547,753</u>
Capital assets being depreciated				
Building	185,904	-	-	185,904
Sewer plant and line costs	23,062,554	-	-	23,062,554
Equipment	941,525	118,583	-	1,060,108
Total capital assets being depreciated	<u>24,189,983</u>	<u>118,583</u>	<u>-</u>	<u>24,308,566</u>
Less accumulated depreciation for:				
Building	105,985	4,648	-	110,633
Sewer plant and line costs	13,264,949	576,564	-	13,841,513
Equipment	833,889	28,068	-	861,957
Total accumulated depreciation	<u>14,204,823</u>	<u>\$ 609,280</u>	<u>\$ -</u>	<u>14,814,103</u>
Total capital assets being depreciated, net	<u>9,985,160</u>			<u>9,494,463</u>
Capital assets, net	<u>\$ 12,532,913</u>			<u>\$ 12,042,216</u>

As of June 30, 2021 the District had nearly completed a project to construct a reclaimed water treatment and storage system in the Oriental, North Carolina area costing approximately \$14 million. This system has been funded partially by a grant from the North Carolina Rural Economic Development Center, Inc. with a ten percent local matching requirement, with the majority of the funding provided by a private sector developer in cooperation with the overall plans of the two districts to provide sewer collection services for areas of Pamlico County. The construction of this system has been carried on and accounted for by a related party, Western Bay River Metropolitan Sewerage District (MSD), under an interlocal agreement entered into by Bay River Metropolitan Sewerage District and Western Bay River Metropolitan Sewerage District, and should be completed during the year ending June 30, 2022. Further information may be found in the notes to the financial statements.

Management Discussion and Analysis  
Bay River Metropolitan Sewerage District

Information about changes in capital assets may be found in Note 4 of the Notes to the Financial Statements.

### Long-term Debt

As of June 30, 2021, there was \$3,234,856 in long-term obligations for the Bay River MSD, a decrease of \$213,244 from June 30, 2020. Further information may be found in the notes to the financial statements.

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021	Current Portion
<b>Business-Type Activities</b>					
Compensated Absences	\$ 13,615	\$ 5,989	\$ -	\$ 19,604	\$ -
Net Pension Liability (LGRS)	81,381	30,467	-	111,848	-
Direct Placement Installment					
Purchases	955,496	-	(75,549)	879,947	75,548
Revenue Bonds	1,604,000	-	(30,000)	1,574,000	31,000
General Obligation Bonds	888,604	-	(107,695)	780,909	111,584
<b>Total Water District</b>	<b>\$ 3,543,096</b>	<b>\$ 36,456</b>	<b>\$ (213,244)</b>	<b>\$ 3,366,308</b>	<b>\$ 218,132</b>

### Activities for the Fiscal Year Ending June 30, 2022

Bay River Metropolitan Sewerage District faces the challenge of allocating scarce resources in terms of providing safe sewer services to its growing customer base. In order to increase the efficiency and free up some capacity in its operations the District intends to investigate some of its regulatory compliance requirements to attempt to eliminate instances of possible wasted capacity. State law may require "empirical" goals for gallons per day of capacity where the actual requirements by the users in that particular area are much less. The District plans to bring situations like this to the attention of the proper state agencies in an effort to reduce the number of cases where the state required capacity is far above what may actually be needed.

The District plans to pursue more cooperative efforts similar to the project in eastern Pamlico County where land developers participate in providing extra needed sewer capacity for their real estate developments. This type of agreement seems to hold promise in terms of helping to address the growing needs for sewer services.

### Requests for Information

This report is designed to provide an overview of the District's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

Superintendent  
Bay River Metropolitan Sewerage District  
P.O. Box 758  
Bayboro, NC 28515  
252-745-4812  
[ealtman@embarqmail.com](mailto:ealtman@embarqmail.com)

## BASIC FINANCIAL STATEMENTS

**Bay River Metropolitan Sewerage District**  
**Statement of Fund Net Position**  
**June 30, 2021**

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**Assets**

Current assets:

Cash and cash equivalents	\$ 1,814,420
Accounts receivable (net)	456,948
Restricted cash and cash equivalents	38,025
Inventory	144,468
Total current assets	<u>2,453,861</u>

Non-current assets:

Capital Assets:

Land, improvements, and construction in progress	2,405,753
Capital assets (net of depreciation)	<u>9,636,463</u>
Total capital assets	<u>12,042,216</u>

Total assets	<u>14,496,077</u>
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Deferred Outflows of Resources:

Pension deferrals	<u>78,416</u>
Total deferred outflows of resources	<u>78,416</u>

The notes to the financial statements are an integral part of this statement.

**Bay River Metropolitan Sewerage District**  
**Statement of Fund Net Position**  
**June 30, 2021**

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**Liabilities**

Current liabilities:

Accounts payable and accrued liabilities	136,184
Accrued interest payable	7,909
Liabilities payable from restricted assets:	
Customer deposits	38,025
Current maturities of long-term debt	218,132
Total current liabilities	<u>400,250</u>

Long-term liabilities:

Accrued vacation payable	19,604
Net pension liability	111,848
General obligation bonds payable	669,325
Installment loans payable	804,399
Revenue bonds payable	1,543,000
Total long-term liabilities	<u>3,148,176</u>
Total liabilities	<u>3,548,426</u>

Deferred Inflows of Resources

Pension deferrals	1,957
Total deferred inflows of resources	<u>1,957</u>

Net Position:

Net investment in capital assets	8,807,360
Unrestricted	2,216,750
Total net position	<u>\$ 11,024,110</u>

The notes to the financial statements are an integral part of this statement.

**Bay River Metropolitan Sewerage District**  
**Statements of Revenues, Expenses, and**  
**Changes in Fund Net Position**  
**For the Fiscal Year Ended June 30, 2021**

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Operating revenues:	
Charges for services	\$ 1,724,770
Tap-on and connection fees	88,080
Miscellaneous	4,837
Other operating revenues	42,440
Total operating revenues	<u>1,860,127</u>
Operating expenses:	
Personnel services	507,845
Contractual services	32,049
Operating supplies	58,682
Office supplies and expense	18,607
Professional services	68,708
Insurance and bonds	54,066
Utilities	11,277
Maintenance and repairs	1,008,177
Depreciation and amortization	609,280
Total operating expenses	<u>2,368,691</u>
Operating income (loss)	<u>(508,564)</u>
Nonoperating revenues (expenses):	
Investment earnings	1,585
Interest and fees	<u>(100,716)</u>
Total nonoperating revenues (expenses)	<u>(99,131)</u>
Net Income (Loss) before contributions	<u>(607,695)</u>
Capital contributions	<u>183,023</u>
Total insurance proceeds and contributions	<u>183,023</u>
Change in net position	(424,672)
Net Position - Beginning of Year	<u>11,448,782</u>
Net Position - End of Year	<u><u>\$ 11,024,110</u></u>

The notes to the financial statements are an integral part of this statement.

**Bay River Metropolitan Sewerage District**  
**Statements of Cash Flows**  
**For The Fiscal Year Ended June 30, 2021**

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Cash flows from operating activities:	
Cash received from customers	\$ 2,257,321
Cash paid to employees for services	(507,845)
Cash paid for goods and services	(1,167,896)
Net cash provided by operating activities	<u>581,580</u>
 Cash flows from capital and related financing activities:	
Capital contributions	183,023
Acquisition and construction of capital assets	(118,583)
Principal paid on bond maturities and notes agreements	(213,244)
Interest paid on bond maturities and notes agreements	(100,716)
Net cash used by capital and related financing activities	<u>(249,520)</u>
 Cash flows from investing activities:	
Interest on investments	<u>1,585</u>
 Net decrease in cash and cash equivalents	333,645
 Cash and cash equivalents:	
Beginning of year, July 1	<u>1,518,800</u>
End of year, June 30	<u>\$ 1,852,445</u>

The notes to the financial statements are an integral part of this statement.

**Bay River Metropolitan Sewerage District**  
**Statements of Cash Flows**  
**For The Fiscal Year Ended June 30, 2021**

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**Reconciliation of operating income to net cash provided by operations:**

Operating income (Loss)	\$ (508,564)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	609,280
Changes in assets, deferred outflows of resources, and liabilities:	
(Increase) decrease in accounts receivable	397,194
(Increase) decrease in inventory	(18,415)
Increase (decrease) in deposits	650
(Increase) decrease in deferred outflows of resources - pensions	(21,074)
Increase (decrease) in deferred inflows of resources - pensions	(1,194)
Increase (decrease) in net pension liability	30,467
Increase (decrease) in accounts payable and accrued liabilities	93,236
Total adjustments	<u>1,090,144</u>
Net cash provided by operating activities	<u>\$ 581,580</u>

The notes to the financial statements are an integral part of this statement.

## NOTES TO THE FINANCIAL STATEMENTS

**BAY RIVER METROPOLITAN SEWERAGE DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2021**

**Note 1: Nature of Operations, Reporting Entity and Significant Accounting Policies**

The Bay River Metropolitan Sewerage District (the District) provides sanitary sewer services to individuals and businesses in Pamlico County, North Carolina. It is a special purpose government engaged only in business-type activities.

**Summary of Significant Accounting Policies:**

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

**Reporting Entity:**

The District is a political subdivision of the State of North Carolina created under Article 5 of the General Statute 162A of the State of North Carolina. The District is governed by a Board of eleven directors, holding office for staggered terms. The directors are appointed by the governing bodies of Pamlico County and the Districts of Alliance, Bayboro, Mesic, Stonewall, Vandemere, and Oriental.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and there are no agencies or entities which should be presented with the District. Also, the District is not included in any other reporting entity. The District is a jointly governed organization, i.e. an entity governed by representatives from other governments. The participants do not retain any ongoing financial interest in or financial responsibility for the District.

**Basis of Presentation:**

The Bay River Metropolitan Sewerage District is a special purpose government engaged only in business type activities which utilize subfunds to track operating and capital activities in accordance with management objectives. As such, the District presents the financial statements as required for enterprise funds.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District's single enterprise fund currently maintains one subfund: the Operating Fund.

**Measurement Focus and Basis of Accounting:**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise activities are accounted for on the flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Enterprise fund equity (i.e. net total assets) is segregated into unrestricted, restricted, and invested capital assets, net of related debt components, as applicable. Operating statements for enterprise funds present increases (e.g. revenue) and decreases (e.g. expenses) in net total position.

The basis of accounting determines when the revenue and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Enterprise funds are presented in the financial statements on the accrual basis of accounting. Under this basis, revenue is recognized in the accounting period when earned and expenses are recognized in the period they are incurred.

In accordance with the North Carolina General Statutes, the District maintains its accounts during the year using the modified accrual basis of accounting and, at year-end, they are converted to the accrual basis for financial statement purposes. Under the modified accrual basis of accounting, revenues are recognized in the period when they become susceptible to accrual (i.e. when they are "measurable" and "available") to pay the liabilities of the current period. In addition, expenditures are recorded when the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are due.

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

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

#### **Budgetary Data:**

The District's budgets are adopted as required by the North Carolina General Statutes. An annual budget ordinance is adopted for the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Project ordinances are adopted for Enterprise Capital Project Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for multi-year funds. The Finance Officer is authorized by the budget ordinance to transfer appropriations between functional areas within a fund, with an official report to the board, of up to \$1,000; however, any revisions that alter total expenditures of any fund or that change functional appropriations must be approved by the governing board. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

#### **Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity:**

##### **Cash and Cash Equivalents:**

The District considers deposits and similar types of accounts and debt securities purchased with an original maturity of three months or less to be cash equivalents.

##### **Restricted Assets:**

District Restricted Cash:

Enterprise Fund

Customer Deposits	\$	38,025
Total Restricted Cash	\$	<u>38,025</u>

##### **Deposits and Investments:**

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

State law [G.S. 159-30(c)] authorizes the District to invest in obligations of the United States; obligations of any agency of the United States of America, provided the payment of interest and principal of such obligations is fully guaranteed by the United States; certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The District investments are reported as fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT-Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2021, The Term portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

In accordance with State law, the District has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

**Unbilled Usage:**

In order to recognize the full year's amount of revenue earned during a fiscal year, the District includes an adjustment for those sewer services that were used during the month of June, but were not billed until the following month. This adjustment is based on the meter reading data gathered by the Pamlico County Water Department and the Oriental Water Department. The unbilled usage indicated the following estimated amounts owed to the District by its customers as of June 30, 2021.

	<u>Unbilled Usage</u>
Bay River MSD Customers	\$153,000

**Inventory:**

Inventory consists of materials and supplies held for consumption and is valued at the lower of cost, using the first-in, first-out (FIFO) method, or market. The cost is recorded as an expense when the inventory is consumed.

**Capital Assets:**

All purchased capital assets are valued at original cost at the time of acquisition. Donated capital assets are valued at their estimated fair value on the date received. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. The District's capitalization threshold policy is \$3,500 for different types of assets such as buildings, plant and sewer systems and equipment. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Estimated useful lives for the major classifications of depreciable assets are as follows:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Building	40
Sewer plant and line costs, including lines under capital lease	30-40
Equipment, including equipment under capital lease	5-7

The amortization of assets under capital lease is included with the depreciation of the District owned assets.

**Deferred Outflows/Inflows of Resources:**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The district has one item that meets this criterion, pension deferrals for the 2021 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District has one item that meets the criterion, pension deferrals.

**Long Term Obligations:**

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the term of the related debt.

**Compensated Absences:**

The vacation policy of the District provides for the accumulation of up to 30 days earned vacation leave with such leave being fully vested when earned. A liability for compensated absences including the salary and related expenses is recorded as the leave is earned. The District has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability.

The District's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the District does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

## **Net Position/Fund Balances**

### **Net Position**

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

### **Fund Balances**

The District has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the District in such a manner that available fund balance is at least equal to or greater than 20% of budgeted expenditures. Any portion of the general fund balance in excess of 20% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the District in a future budget.

The District has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-county funds, county funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the District.

### **Defined Benefit Cost-Sharing Plan**

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

### **Stewardship, Compliance, and Accountability**

#### **Significant Violations of Finance-Related Legal and Contractual Provisions**

##### **1. Noncompliance with North Carolina General Statutes**

None.

##### **2. Contractual Violations**

None.

##### **3. Excess of Expenditures over Appropriations**

None.

### **Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for Deferred Outflows of Resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District has one item that meet this criterion, pension deferrals for the 2020 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for Deferred Inflows of Resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District has one item that meets the criterion for this category - deferrals of pension.

**Note 2: Asset**

## Deposits:

All the deposits of the District are to be either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the districts' agents in the districts' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the districts, these deposits are considered to be held by the districts' agents in the entity's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the District or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the District under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The District has no formal policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method institutions and to monitor them for compliance. The District complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2021, the District's deposits had a carrying value of \$1,113,184 and a bank balance of 1,168,544. Of the bank balance, \$500,000 was covered by federal depository insurance. The rest was covered by the collateral held under the Pooling Method.

## Investments:

At June 30, 2021, the District had \$739,261 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The District has no policy regarding credit risk.

**Note 3: Allowance for Doubtful Accounts**

A small number of the District's customers fail to pay for their sewer services. As of June 30, 2021 the District has established an allowance for doubtful accounts in the amount of \$84,329 to report a net accounts receivables amount that realistically reflects the risk of nonpayment by some customers.

**Note 4: Capital Assets**

Capital asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balances July 1, 2020	Increases	Decreases	Ending Balances June 30, 2021
Capital assets not being depreciated:				
Timber	\$ 142,000	\$ -	\$ -	\$ 142,000
Land	582,599	-	-	582,599
Construction in progress	1,823,154	-	-	1,823,154
Total capital assets not being depreciated	2,547,753	-	-	2,547,753
Capital assets being depreciated:				
Building	185,904	-	-	185,904
Sewer plant and line costs	23,062,554	-	-	23,062,554
Equipment	941,525	118,583	-	1,060,108
Total capital assets being depreciated	24,189,983	118,583	-	24,308,566
Less accumulated depreciation for:				
Building	105,985	4,648	-	110,633
Sewer plant and line costs	13,264,949	576,564	-	13,841,513
Equipment	833,889	28,068	-	861,957
Total accumulated depreciation	14,204,823	\$ 609,280	\$ -	14,814,103
Total capital assets being depreciated, net	9,985,160			9,494,463
Capital assets, net	<u>\$ 12,532,913</u>			<u>\$ 12,042,216</u>

**Note 5: Long-Term Obligations**

Long-term obligation activity during the year ended June 30, 2021 is as follows:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021	Current Portion
Business-Type Activities					
Compensated Absences	\$ 13,615	\$ 5,989	\$ -	\$ 19,604	\$ -
Net Pension Liability (LGERS)	81,381	30,467	-	111,848	-
Direct Placement Installment Purchases	955,496	-	(75,549)	879,947	75,548
Revenue Bonds	1,604,000	-	(30,000)	1,574,000	31,000
General Obligation Bonds	888,604	-	(107,695)	780,909	111,584
Total Water District	<u>\$ 3,543,096</u>	<u>\$ 36,456</u>	<u>\$ (213,244)</u>	<u>\$ 3,366,308</u>	<u>\$ 218,132</u>

**Sanitary Sewer Bonds:**

General obligation bonds payable consist of Sanitary Sewer Bonds outstanding in the amount of \$888,604 as of June 30, 2020. The sewer bonds were issued on December 4, 1990 and will be paid in full on June 1, 2029. These bonds were refunded on June 7, 2012. The current interest rate is 3.89%. Maturity still remains June 1, 2029.

The general obligation bonds are direct obligation and pledge the full faith and credit of the District.

Annual debt service requirements to maturity for these bonds are as follows:

Year Ending 30-Jun	Principal	Interest
2022	\$ 111,584	\$ 30,377
2023	111,374	26,037
2024	110,188	21,704
2025	108,793	17,418
2026	107,426	13,186
2027-2029	231,544	14,708
Total	<u>\$ 780,909</u>	<u>\$ 123,430</u>

**Revenue Bonds:**

The District has issued Series 2011 USDA Revenue Bonds, in order to finance various sewer improvements.

\$1,604,000 Sewer Revenue Bonds issued on April 28, 2011; interest at 3.625% payments due June 1 yearly.

Year Ending 30-Jun	Principal	Interest
2022	\$ 31,000	\$ 57,058
2023	33,000	55,934
2024	34,000	54,738
2025	35,000	53,505
2026	36,000	52,236
2027-2031	202,000	240,483
2032-2036	242,000	201,116
2037-2041	290,000	153,881
2042-2046	345,000	97,477
2047-2050	326,000	30,088
Total	<u>\$ 1,574,000</u>	<u>\$ 996,516</u>

The District has been in compliance with all covenants in Section 5.02 of the Bond Order, authorizing the issuance of the Sewer Revenue Bonds. The debt service coverage ratio calculation for the year ended June 30, 2021, is as follows:

Operating revenues	\$ 1,860,127
Operating expenses*	<u>1,759,411</u>
Operating income	100,716
Nonoperating revenues (expenses)**	<u>1,585</u>
Income available for debt service	102,301
Debt service, principal and interest paid (Revenue bond only)	\$ 88,058
Debt service coverage ratio	116%

\* Per rate covenants, this does not include the depreciation expense of \$609,280.

\*\* Per rate covenants, this does not include revenue bond interest paid of \$100,716.

### Installment Loans Payable

The District entered into direct placement with The Sewer Line Repair note dated October 22, 2012 is payable annually to the BB&T with principal payments of \$33,333 plus annual interest payments (3.2%) through 2027. The property is pledged as collateral for the debt while the debt is outstanding. The balance at June 30, 2021 is \$233,334.

The District entered into a direct placement with State Clean Water Revolving Fund Loan CS370683-03: A loan of \$473,655 calling for 20 annual principal payments of \$23,683 with interest at 0.00%. Matures in 2035. The property is pledged as collateral for the debt while the debt is outstanding. The balance at June 30, 2021 is \$331,562.

The District entered into a direct placement with State Clean Water Revolving Fund Loan SC370683-04: A loan of \$372,837 calling for 20 annual principal payments of \$18,532 with interest at 0.00%. Matures in 2038. The property is pledged as collateral for the debt while the debt is outstanding. The balance at June 30, 2021 is \$315,051.

Annual debt service requirements for installment notes are payable as follows:

Year Ending		
30-Jun	Principal	Interest
2022	\$ 75,548	\$ 7,467
2023	75,548	6,400
2024	75,548	5,333
2025	75,548	4,267
2026	75,551	3,200
2027-2031	277,741	3,200
2032-2036	187,392	-
2037-2038	37,071	-
Total	<u>\$ 879,947</u>	<u>\$ 29,867</u>

### Pension Plan and Post Employment Obligations

#### Local Governmental Employees' Retirement System:

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

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

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

**Contributions.** Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The District employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS District of Trustees. The District's contractually required contribution rate for the year ended June 30, 2021, 10.29% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the District were \$32,260 for the year ended June 30, 2021.

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

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

At June 30, 2021, the District reported a liability of \$111,848 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing updated procedures incorporating the actuarial assumptions. The District's proportion of the net pension liability was based on a projection of the District's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2021, the District's proportion was 0.00313%, which was an increase of 0.00015% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2021, the District recognized pension expense of \$40,457. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 14,124	\$ -
Changes of assumptions	8,324	-
Net difference between projected and actual earnings on pension plan investments	15,739	-
Changes in proportion and differences between District contributions and proportionate share of contributions	7,969	1,957
District's contributions subsequent to the measurement date	32,260	-
Total	<u>\$ 78,416</u>	<u>\$ 1,957</u>

\$32,260 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as an increase of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year Ended June 30**

2022	\$	12,601
2023		16,015
2024		10,926
2025		4,657
2026		-
Thereafter		-
	\$	<u>44,199</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real
		Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2018 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the District's proportionate share of the net pension asset to changes in the discount rate.* The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.00 percent, as well as what the District's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
District's proportionate share of the net pension liability (asset)	\$ 226,928	\$ 111,848	\$ 16,209

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

#### **Other Employment Benefits:**

The District has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. Because all death benefit payments are made from the Death Benefit Plan and not by the District, the District does not determine the number of eligible participants. The District has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State.

#### **Deferred Outflows and Inflows of Resources**

Deferred outflows of resources is comprised of the following:

Source	Amount
Changes in proportion and differences between District's contributions and proportionate share of contributions	\$ 46,156
Contributions to pension plan in current fiscal year	32,260
Total	<u>\$ 78,416</u>

Deferred inflows of resources at year-end is comprised of the following:

Pension deferrals	\$ 1,957
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#### **Note 6: Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial coverage for all risks of loss, to include business auto, real and personal property, general liability and worker's compensation (statutory). Employee health and accident insurance is also covered by commercial insurance. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any year since the District's inception.

In accordance with G.S. 159-29, the District's employees that have access to \$100 or more at any given time of the District's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000.

The District carries flood insurance through the National Flood Insurance Plan (NFIP). Because the District is in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by Federal Emergency Management Agency, the District is eligible to purchase coverage of \$500,000 per structure through the NFIP.

### **Note 7: Related Party Transactions**

The District is a jointly governed organization which is governed by representatives from each of the governments that created the District.

#### **Pamlico County**

At June 30, 2021 accounts receivables from customers billed by Pamlico County, including accruals for unbilled usage, totaled \$324,342 representing potential customer sewer collections not yet remitted to the District. This total is the amount due for customer collections if all balances were collected, without considering any allowances for uncollected revenue due to late or non-paying customers.

#### **All Participating Governments**

Pamlico County and certain Districts within the District's service area periodically receive grant funds from Federal and State agencies and provide matching local funds for the construction or improvement of sewerage systems. Upon completion of the projects, ownership of these systems are transferred by the participating governments to the District. These systems are then recorded as capital assets and capital contributions in the financial statements of the District. There were no such transfers during the current year.

#### **Pamlico County and District of Oriental**

On October 23, 1995, Bay River Metropolitan Sewerage District, District of Oriental, and Pamlico County entered into an interlocal agreement which provides, among other things, that the District will lease (and ultimately own) and operate the District of Oriental sewer system, the District will expand geographically to include the District of Oriental, and the District will contribute certain loan and grant funds to a project for the construction of a regional sewer system in Pamlico County that the District will ultimately own and operate. In conjunction with this agreement, the District of Oriental transferred its sewer system to Pamlico County. The County subsequently leased the system to the District (Notes 4 and 5) whereby the system will be transferred to the District at the end of the lease and therefore qualifies as a capital lease for accounting purposes.

#### **Western Bay River Metropolitan Sewerage District**

During the year ending June 30, 2003, Western Bay River Metropolitan Sewerage District (Western District) was created for the development of a wastewater collection system in the Reelsboro area of Pamlico County. The Western District's initial seven member Board of Directors was appointed by the Pamlico County Commissioners and governs the Western District. According to an interlocal agreement between Western Bay River Metropolitan Sewerage District and Bay River Metropolitan Sewerage District, the wastewater collection system constructed by Western Bay River Metropolitan Sewerage District will be leased to Bay River Metropolitan Sewerage District under an interlocal sewerage system operating lease agreement for one year after the completion of the sewer collection system or until the earlier merger of Western Bay River Metropolitan Sewerage District and Bay River Metropolitan Sewerage District. Under the terms of the lease, the sewer collection system will be operated by the Bay River Metropolitan Sewerage District and all income from the operation of the system will be assigned to Bay River Metropolitan Sewerage District to defray its cost in operating and maintaining the system. Both the interlocal agreement and the lease agreement call for the two districts to merge as soon as is practicable following the completion of the construction project. The merger may take longer than originally anticipated because the scope of the projects undertaken by Western Bay River Metropolitan District has increased to include engineering and raw sewerage to and from a planned residential community in eastern Pamlico County. The increase in scope was approved by the Boards of the two districts in an effort to use special grant funding available only to state designated "unsewered communities" such as Western Bay River Metropolitan Sewerage District to provide an environmentally safe manner for the collection, processing and disposal of sewage. During the year ending June 30, 2021 Western Bay River Metropolitan District will be absorbed by Bay River Metropolitan District.

### **Note 8: Contingent Liabilities**

The District is involved in certain matters involving Pamlico County and related to certain interlocal agreements. Management of the District and their respective legal counsel feel that these claims will be successfully resolved; therefore no provision has been made in the financial statements for any contingent assets or liabilities.

### **Note 9: Federal and State Assisted Programs**

The District has received proceeds from the Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreement. Such audits could result in the refund on grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

### **Note 10: Significant Effects of Subsequent Events**

There are no subsequent events that would have a material affect on the financial statements. Subsequent events have been analyzed through the date that the financial statements were available to be issued.

REQUIRED  
SUPPLEMENTAL FINANCIAL DATA

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This section contains additional information required by generally  
accounting principals.

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Schedule of the Proportionate Share of the Net Pension  
Liability – Local Government Employees' Retirement System

Schedule of Contributions – Local Government Employees'  
Retirement System

**Bay River Metropolitan Sewerage District**  
**Bay River MSD's Proportionate Share of Net Pension Liability (Asset)**  
**Required Supplementary Information**  
**Last Eight Fiscal Years\***

**Local Government Employees' Retirement System**

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
District's proportion of the net pension liability (asset) (%)	0.00313%	0.00298%	0.00323%	0.00380%	0.00405%	0.00451%	0.0039%	0.0024%
District's proportion of the net pension liability (asset) (\$)	\$ 111,848	\$ 81,381	\$ 76,627	\$ 58,053	\$ 85,955	\$ 20,240	\$ (22,882)	\$ 28,929
District's covered-employee payroll	\$306,815	\$231,435	\$223,624	\$280,226	\$274,628	\$294,063	\$258,127	\$ 207,299
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	36.45%	35.16%	34.27%	20.72%	31.30%	6.88%	( 8.86%)	13.96%
Plan fiduciary net position as a percentage of the total pension liability**	88.61%	90.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

\*\* This will be the same percentage for all participant employers in the LGERS plan.

**Bay River Metropolitan Sewerage District  
Bay River MSD's Contributions  
Required Supplementary Information  
Last Eight Fiscal Years**

**Local Government Employees' Retirement System**

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually required contribution	\$ 32,260	\$ 27,859	\$ 18,306	\$ 17,107	\$ 20,709	\$ 18,730	\$ 18,250	\$ 21,349
Contributions in relation to the contractually required contribution	32,260	27,859	18,306	17,107	20,709	18,730	18,250	21,349
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 313,511	\$ 306,815	\$ 231,435	\$ 223,624	\$ 280,226	\$ 274,628	\$ 294,063	\$ 258,127
Contributions as a percentage of covered-employee payroll	10.29%	9.08%	7.91%	7.65%	7.39%	6.82%	6.21%	8.27%

## INDIVIDUAL FUND SCHEDULES

- Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual - Operating Fund

**Bay River Metropolitan Sewerage District**  
**Operating Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2021**

	2021		Variance
	Budget	Actual	Positive (Negative)
Revenues:			
Charges for services	\$	\$ 1,724,770	\$
Tap-on and connection fees		88,080	
Miscellaneous		4,837	
Other operating revenues		42,440	
Total Operating Revenues	<u>1,734,500</u>	<u>1,860,127</u>	<u>125,627</u>
Nonoperating revenues:			
Interest earnings		1,585	
Total Non-Operating Revenues	<u>6,000</u>	<u>1,585</u>	<u>(4,415)</u>
Total Revenues	<u>1,740,500</u>	<u>1,861,712</u>	<u>121,212</u>
Expenditures:			
Personnel services		494,185	
Contractual services		32,049	
Operating supplies		58,682	
Office supplies and expense		18,607	
Professional services		68,708	
Insurance and bonds		54,066	
Utilities		11,277	
Maintenance and repairs		1,008,177	
Total operating expenditures	<u>2,070,400</u>	<u>1,745,751</u>	<u>324,649</u>

**Bay River Metropolitan Sewerage District**  
**Operating Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2021**

	2021		Variance
	Budget	Actual	Positive (Negative)
Debt service:			
Interest and fees		100,716	
Principal retirement		213,244	
Total debt service	<u>314,597</u>	<u>313,960</u>	<u>637</u>
Capital Outlay:			
System Improvements/Equipment	<u>281,503</u>	<u>118,583</u>	<u>162,920</u>
Total expenditures	<u>2,666,500</u>	<u>2,178,294</u>	<u>488,206</u>
Other financing sources (uses):			
Appropriated retained earnings	-	-	-
Grants	<u>926,000</u>	<u>183,023</u>	<u>(742,977)</u>
(uses):	<u>926,000</u>	<u>183,023</u>	<u>(742,977)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ (133,559)</u>	<u>\$ (133,559)</u>

**Reconciliation from budgetary basis  
(modified accrual) to full accrual:**

Revenues over expenditures \$ (133,559)

Reconciling items:

Principal retirement	213,244
Depreciation	(609,280)
Change in accrued interest	528
Change in compensated absences	(5,989)
Increase (decrease) in deferred outflows - pensions	21,074
(Increase) decrease in deferred inflows - pensions	1,194
(Increase) decrease in net pension liability	(30,467)
Capital outlay	<u>118,583</u>
Total reconciling items	<u>(291,113)</u>

Change in net position \$ (424,672)

## COMPLIANCE SECTION



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**Report On Internal Control Over Financial Reporting And On Compliance and  
Other Matters Based On An Audit Of Financial Statements Performed In  
Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

To the Chairperson and  
Members of the Board  
Bay River Metropolitan Sewerage District  
Bayboro, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Bay River Metropolitan Sewerage District as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Bay River Metropolitan Sewerage District's basic financial statements, and have issued our report thereon dated March 1, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Bay River Metropolitan Sewerage District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bay River Metropolitan Sewerage District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. Listed as items 2021-001 and 2021-002.

#### Compliance and Other Matters

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

#### District's Response to Findings

The Bay River Metropolitan Sewerage District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Thompson, Price, Scott, Adams & Co., PA*

*Wilmington, North Carolina*

*March 1, 2022*

**Bay River Metropolitan Sewerage District, North Carolina**  
**Schedule of Findings and Responses**  
**For the Fiscal Year Ended June 30, 2021**

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<b>Section I.</b>	<b>Summary of Auditor's Results</b>
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Financial Statements

Type of report auditor issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified.

Internal control over financial reporting:

- Material weakness(es) identified?                      yes    Xno
- Significant Deficiency(s) identified?                Xyes      none reported

Noncompliance material to financial  
statements noted?      yes    Xno

**Bay River Metropolitan Sewerage District, North Carolina**  
**Schedule of Findings and Responses**  
**For the Fiscal Year Ended June 30, 2021**

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**Section II – Financial Statement Findings**

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**SIGNIFICANT DEFICIENCIES**

**2021 – 001      Segregation of Duties**

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among District personnel.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions.

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2020-001.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

Views of responsible officials and planned corrective actions: The District agrees with this finding and will adhere to the corrective action plan to follow.

**2021 – 002      Failure to Perform Reconciliations of Significant Accounts**

Criteria: Cash account, debt accounts, and accounts receivable accounts are not reconciled to the general ledger accounts in a timely or accurate manner.

Condition: There is a lack of ability to reconcile these subsidiary ledgers to the general ledger.

Effect: Information obtained from general ledger could be incorrect.

Cause: Inadequate training with software.

Recommendation: The District should obtain additional training with the software vendor and evaluate the usefulness of the system.

Views of responsible officials and planned corrective actions: The District agrees with this finding and will adhere to the corrective action plan to follow.



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Corrective Action Plan  
For the Fiscal Year Ended June 30, 2021

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## **Section II – Financial Statement Findings**

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### **SIGNIFICANT DEFICIENCIES**

Finding: 2021 – 001      Segregation of Duties

Name of contact person:	Arthur Kelly, Chairman
Corrective Action:	Duties are now segregated due to hiring of an Office Manager employee. Duties are segregated so that no one person has complete control over more than one key function or activity (authorizing, approving, certifying, disbursing, receiving, or reconciling).
Proposed Completion Date:	The Board has implemented the above procedure.

Finding: 2021 – 002      Failure to Perform Reconciliations of Significant Accounts

Name of contact person:	Arthur Kelly, Chairman
Corrective Action:	The Office Manager completes the monthly bank reconciliation along with reconciling the contributions from payroll. The Finance Officer processes payroll through Paychex instead of using QuickBooks for payroll processing. Finance Officer reviews the completed bank reconciliation and runs the Trial Balance to ensure it matches the bank statement.
Proposed Completion Date:	The Board has implemented the above procedure.