Metropolitan Sewerage District of Buncombe County, North Carolina

REVIEWED
By SLGFD at 3:14 pm, Nov 24, 2021

Audited Financial Statements

Audited Financial Statements
for the Fiscal Year Ended June 30, 2021

PRINCIPAL OFFICIALS	
Board Member	**Representative of**
M. Jerry VeHaun, Chairman	Town of Woodfin
E. Glenn Kelly, Vice-Chairman	Town of Biltmore Forest
Jackie W. Bryson, Secretary/Treasurer	Woodfin Sanitary Water & Sewer District
Matt Ashley. Jr.	Town of Montreat
Sheila Franklin	Cane Creek Water & Sewer District
William G. Lapsley	Cane Creek Water & Sewer District
Esther Manheimer	City of Asheville
Chris Pelly	City of Asheville
Nathan Pennington	Buncombe County
Robert Pressley	Buncombe County
Earl Valois	Town of Weaverville
Robert C. Watts	Town of Black Mountain
Al Whitesides	Buncombe County
Gwen Wisler	City of Asheville

Legal Counsel	Engineer of Record
Roberts & Stevens, P.A.	McGill Associates, P.A.

General Manager	Director of Finance
Thomas E. Hartye, P.E.	W. Scott Powell, CLGFO

Prepared By: Financial Services Department

W. Scott Powell, CLGFO, Director of Finance | Cheryl S. Rice, Accounting Manager

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Report of Independent Auditor

The Board of Directors
Metropolitan Sewerage District of Buncombe County, North Carolina
Asheville, North Carolina

Report on Financial Statements

We have audited the accompanying financial statements of Metropolitan Sewerage District of Buncombe County, North Carolina (the "District") which comprise the statement of net position as of June 30, 2021, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2021, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary financial data, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely 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 the effectiveness of the District's 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 the District's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Charlotte, North Carolina
October 29, 2021

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Management's Discussion and Analysis

As management of the Metropolitan Sewerage District of Buncombe County (District), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial activities for the Fiscal Year ended June 30, 2021.

Financial Highlights

A. Net Position

Net Position is defined as the value of all assets, plus deferred outflows of resources, less all liabilities and deferred inflows of resources. Restricted net position is restricted by law, bond covenant, or other contractual arrangement, less debt incurred. The financial well-being of a government is reflected to a large degree by the growth of net position.

» The District's net position totals $473.7 million and reflects a $41.3 million or 9.5% increase from the prior year. The income and expense items affecting this improvement will be discussed in greater detail in the section, "Financial Analysis of the District" on page 3.

» The $41.3 million increase is attributable to the District's normal operations and includes contributed capital assets from developers of $7.6 million and $19.9 million contributed capital from Henderson County.

» Net investment in capital assets increased by $38.7 million or 10.7%, evidencing the District's continued rehabilitation of infrastructure as well as an increase in donated capital.

B. Outstanding Debt

After principal repayments of $5.9 million, the District has approximately $94.5 million of outstanding debt exclusive of related unamortized discounts and premiums.

Overview of the Financial Statements

This Discussion and Analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: u the financial statements and v notes to the financial statements that explain in more detail some of the information in the financial statements.

After the notes, supplemental information is provided to show details about the District's fund structure as set forth in the Bond Order. Budgetary information required by the North Carolina General Statutes also can be found in this part of the statements.

A. Basic Financial Statements

The financial statements of the District report information about the District using accounting methods similar to those used by private-sector companies. There are three required statements, which provide both long-term and short-term information about the District's overall financial status.

- The **Statement of Net Position** presents information on all the District's assets, plus deferred outflows of resources, less liabilities, and deferred inflows of resources with the difference reported as net position. This Statement provides information about the types and amounts of resources (assets), deferred outflows of resources, the obligations to the District's employees and creditors (liabilities), and deferred inflows of resources, which may be used to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing liquidity and financial flexibility.

- The **Statement of Revenues, Expenses, and Changes in Net Position** presents the current year's results of operations and can be used to determine how successful the District has been in collecting revenues, controlling expenses, and recovering costs through user fees and charges.

- The final required financial statement is the **Statement of Cash Flows**. This Statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and related financing activities, and may be used to determine how cash originated, what that cash was used for, and how these activities resulted in the change to cash balance during the year.

These financial statements should be evaluated with other external factors such as economic conditions, regional employment statistics, and population growth for a more complete analysis of the District's current and future financial condition.

Financial Analysis of the District

A. Net Position

As previously noted, net position may serve over time as one useful indicator of an entity's financial condition. The District's assets plus deferred outflows of resources exceeded liabilities by $473.7 million at June 30, 2021.

The largest proportion of the District's net position, approximately 84.4%, reflects the District's net investment in capital assets (e.g., land, buildings, interceptor and collector sewer lines, treatment facilities, equipment, etc.), less any related debt outstanding that was issued to acquire these items. As these assets are required to provide wastewater collection and treatment services, these resources are not available for future spending. Although the District's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources as the capital assets cannot be used to liquidate these liabilities.

An additional $7.0 million or 1.5% of the District's net position are funds restricted by the Bond Order to be held in reserve for either debt service or for emergency capital equipment repair or replacement. The remaining balance of $67.1 million is unrestricted and may be used to fund pay-as-you-go capital projects, medical or workers' compensation claims, replacement reserves, or any other legal purpose.

The District's overall financial position improved during the Fiscal Year ended June 30, 2021 as overall net position grew by 9.5%. The District's financial strategy is to set rates at a level sufficient to cover operating and debt service expenses as well as to provide about half of the funding for pay-as-you-go infrastructure rehabilitation. The success of this approach is visible in the continuing growth of the District's net position. Current assets will decrease gradually as cash and investments are used to rehabilitate infrastructure, until the next planned revenue bond issuance.

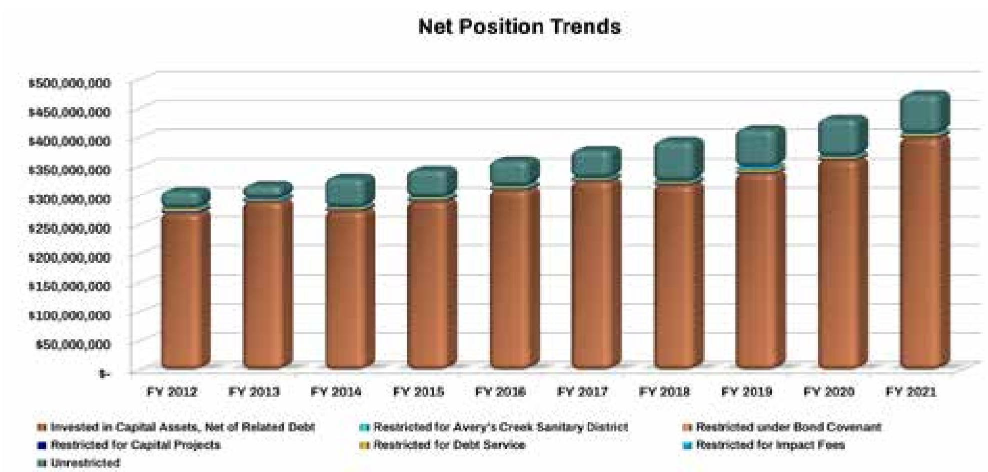

Table 1—Condensed Statement of Net Position

	FY 2021	FY 2020	% Increase (Decrease) 2021 Vs. 2020
Current and Other Assets	$ 85,322,943	$ 83,759,211	1.87%
Capital Assets, net	496,582,900	464,266,089	6.10%
Total Assets	581,905,843	548,025,300	6.18%
Deferred Outflows of Resources	7,674,781	8,779,953	(12.57%)
Long-Term Liabilities Outstanding	103,934,604	111,083,944	(6.44%)
Other Liabilities	11,636,880	12,973,592	(10.03%)
Total Liabilities	115,571,484	124,057,536	(6.84%)
Deferred Inflows of Resources	262,801	269,000	(2.30%)
Net Position:			
Net Investment in Capital Assets	399,621,901	360,881,071	10.77%
Restricted for:			
Debt Service	5,990,231	5,737,542	4.40%
Bond Covenant	1,026,733	1,010,040	1.65%
Unrestricted	67,107,474	64,850,064	3.48%
Total Net Position	$ 473,746,339	$ 432,478,717	9.54%

The Condensed Statement of Revenues, Expenses, and Changes in Net Position shown in Table 2 below provides information concerning what contributed to the net changes reported in Table 1.

Table 2—Condensed Statement of Revenues, Expenses, and Changes in Net Position

	FY 2021	FY 2020	% Increase (Decrease) 2021 Vs. 2020
Operating Revenues:			
Sewer Charges	$ 38,591,901	$ 37,371,562	3.27%
Facility and Tap Fees	5,092,060	5,737,611	(11.25%)
Miscellaneous	1,770,022	731,965	241.82%
Total Operating Revenues	45,453,983	43,841,138	3.68%
Operating Expenses:			
Salaries and Employee Benefits	8,640,936	8,762,073	(1.38%)
Contractual Services	1,810,481	1,619,078	11.82%
Utilities	1,105,110	1,205,899	(8.36%)
Repairs and Maintenance	998,183	975,618	2.31%
Other Supplies and Expenses	1,623,222	1,559,480	4.09%
Insurance Claims and Expenses	2,351,485	2,106,989	11.60%
Depreciation	12,394,875	11,337,087	9.33%
Total Operating Expenses	28,924,292	27,566,224	4.93%
Operating Income	16,529,691	16,274,914	1.57%
Non-operating Revenues (Expenses):			
Investment Income	30,582	1,215,565	(97.48%)
Interest Expense	(3,110,487)	(3,292,282)	(5.52%)
Gain (Loss) on Sale of Surplus Property	322,770	(121,183)	366.35%
Total Non-operating Revenues (Expenses)	(2,757,135)	(2,197,900)	25.44%
Income before other transactions	13,772,656	14,077,014	(2.16%)
Capital Contribution	7,558,647	4,281,722	176.53%
Special Item - Cane Creek Water and Sewer District asset contribution from Henderson County	19,936,419	-	100.00%
Change in Net Position	41,267,622	18,358,736	224.78%
Total Net Position, beginning of year	432,478,717	414,119,981	4.43%
Total Net Position, end of year	$ 473,746,339	$ 432,478,717	9.54%

This section discusses significant factors contributing to the District's 9.5% increase in net position from $432.5 million to $473.7 million.

A. Operating Revenues

- Sewer revenues increased 3.27%. The District did not increase domestic sewer rates at the beginning of the Fiscal Year 2021 due to the COVID-19 Pandemic. The increase was due to better than anticipated revenue as a result to increased usage over the previous year.

- Facility and Tap Fees decreased 11.25% over the previous year reflecting a decline in development for the area.

B. Operating Expenses were kept fairly flat with the exception of:

- **Salaries and Employee Benefits**—The District experienced a 1.38% decrease in current year expense due to general retirements in the current year.

- **Contractual Services**—The District experienced a 11.82% increase in current year expenses due to assuming the billing and collections of the Cane Creek Water and Sewer District.

- **Utilities Expense**—An increase in internally generated hydroelectric power attributed to the 8.36% decrease in current year expenses.

- **Insurance Claims and Expenses**—The District experienced a 11.6% increase in current year expense due to having a couple of high-dollar claims in current year.

C. Investment Income—Decreasing short-term interest rates resulted in a 97.48% decrease in the District's interest income.

D. Interest Expense—Interest expense decreased due to the reduction of outstanding debt.

E. Capital Contribution—The amounts reported as capital contributions represent the estimated fair market value of donated sewer collector lines by developers and member agencies. The District has no direct control over the amount of contributions received. These amounts are reflected as equal income and capital expenditures in the financial statement.

Capital Asset and Debt Administration

A. Capital Assets

The District owns capital assets with a historical cost of $707,531,114. These assets consist of land (including easements), improvements including a hydroelectric dam, buildings, collector sewer lines, interceptor lines (large pipelines into which collector sewer lines feed), construction equipment and machinery, service vehicles, office machines, computer hardware and software.

The District has begun several projects expected to cost $162.3 million to complete and at June 30, 2021 was committed to contracts expected to cost $3.2 million.

Major capital asset transactions during the year include:

- Rehabilitation of over 39,510 feet of sewer line including:
  - Chestnut Lodge Road
  - Horizon Hill Road (Hy-Vu Drive) GSR
  - Incinerator Birdhouse Replacement
  - Mud Creek Interceptor Phase 2
  - Plant High-Rate Primary Treatment
  - Riverside Drive @ Norton Drive GSR

Table 3—Capital Assets

	FY 2021	FY 2020
Land	$ 2,773,980	$ 2,515,666
Easements	11,117,208	10,562,044
Improvements Other than Buildings	7,431,575	7,347,988
Buildings	49,092,193	53,941,734
Machinery and Equipment	85,439,600	85,569,686
Interceptor Sewer Lines	126,477,532	121,842,828
Collector Sewer Lines	404,428,663	364,385,457
Construction in Progress	20,770,543	14,130,635
Subtotal	707,531,114	660,296,038
Less: Accumulated Depreciation	(210,948,214)	(196,029,949)
Net Property, Plant and Equipment	$ 496,582,900	$ 464,266,089

More detailed information on the District's capital assets is presented in Note 5 to the financial statements.

B. Debt Administration

At June 30, 2021, the District had $94,494,415 in par value of outstanding debt. Unlike cities and counties, the District does not have a debt limit. However, the District's Bond Order requires that user rates be set to achieve a minimum debt service coverage ratio of 1.2 annually. This means that in any year, after the District pays all current operating expenses, the net revenues remaining must be at least 120% of that year's principal and interest payments.

The District holds an AA+ rating from Standard & Poor's, an Aaa rating from Moody's Investor Service, and an AA+ rating from Fitch. These high ratings allow the District to pay a lower rate of interest than other entities with less favorable ratings.

Further details on long-term debt are provided in Note 3 to the financial statements.

Economic Factors and Next Year's Budget and Rates

The District, located in Buncombe County within the Asheville metropolitan area, has been in a better economic position than many other communities in the state and the nation due to several key factors.

A. Unemployment—From 2003 through 2020, Asheville's unemployment rate has been among the lowest compared to the other ten metropolitan areas in North Carolina. As of June 2021, Asheville's unemployment rate was 4.7%. This is below the state and national averages of 4.9% and 6.1%, respectively. Over the past year, about 13,600 jobs have been added to the economy, increasing current employment to 187,700.

B. Balanced Economic Growth—The Asheville metropolitan area has developed a unique and balanced economy based on several key drivers. Actions of each driver can overlap and support other drivers in the local economy. History has also shown that a period of weakness for one driver can lead to the expansion of another.

Key drivers include:

- Specialized health care industry
- Restructured manufacturing sector

- Baby-boom generation fueled population growth
- Growing professional services sector
- Stable tourism activity
- Resilient housing market

- **Local Healthcare Employment**—At over 34,700 workers, health services is now the largest industry sector in the Asheville metropolitan area. Ambulatory health services is the chief source of the new jobs. Strong gains in well-paying health services have softened the earlier losses in the traditional manufacturing sector. Historically, stable growth in local healthcare services has had an average annual rate of 2% to 4%. The COVID-19 Pandemic has had a 10.3% decrease in employment over the previous year.

- **Manufacturing Employment**—With 21,500 workers, manufacturing continues to be transformed into a high-skilled sector restructured around an advanced group of machinery, plastics, and electronics manufacturers. Recent economic indicators suggest job gain in manufacturing despite the impact by the COVID-19 Pandemic. Manufacturing did experience a 4.4% increase over the previous year.

- **Continued Moderate Population Growth**—Population growth remains a consistent and stable contributor to the local economy. Estimates indicate moderate growth patterns will continue between 1.5% and 2.0% per year. More than 95% of local population growth is from in-migration, with the remaining from births over deaths.

- **Professional and Business Sector**—The confluence of retiring baby-boomers, local quality of life, and economic growth has resulted in the emergence of a growing professional and business services sector. This sector includes many highly technical and well-paid services such as engineering, computer design, and temporary employment services. Nevertheless, due to the COVID-19 Pandemic, employment decreased 6.5% over the previous year.

The major economic challenge facing the District is the continued impact of COVID-19 Pandemic on employment and tourism. However, the impacts should be temporary and tempered by the District's more than adequate cash position.

Based on the District's projections for residential, commercial, and industrial sewer use, sewer rates will increase by 2.75% for the Fiscal Year ended June 30, 2022. Current projections indicate adequate funding for operations, debt service, and the District's long-term Capital Improvement Program.

Requests for Additional 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 W. Scott Powell, Director of Finance, Metropolitan Sewerage District of Buncombe County, 2028 Riverside Drive, Asheville, NC 28804, (828) 225-8211, or spowell@msdbc.org.

Statement of Net Position
June 30, 2021

Assets:		
Current assets:		
Cash and cash equivalents	$	55,035,224
Investments		13,996,631
Restricted cash and cash equivalents		7,482,433
Receivables (net):		
Accounts		6,835,102
Sales		467,812
Employee		19,480
Inventories		457,028
Prepaid expenses		2,500
Total current assets		84,296,210
Noncurrent assets:		
Restricted cash and cash equivalents		1,026,733
Capital assets:		
Land		2,773,980
Easements		11,117,028
Plant and equipment		672,869,563
Construction in progress		20,770,543
Less: accumulated depreciation		(210,948,214)
Total property and equipment		496,582,900
Total noncurrent assets		497,609,633
Total assets		581,905,843
Deferred outflows of resources:		7,674,781
Liabilities:		
Current liabilities:		
Payments from current assets:		
Accounts payable and accrued expenses		3,963,853
Current portion of compensated absences payable		60,000
Payments from restricted cash and cash equivalents:		
Bond interest payable		1,492,202
Current portion of long term obligations		6,120,825
Total current liabilities		11,636,880
Noncurrent liabilities:		
Compensated absences, net of current portion		827,292
Other post-employment benefits		3,674,000
Net pension liability		4,173,404
Derivative liability		3,018,824
Long-term obligations, net of current maturities		92,241,084
Total noncurrent liabilities		103,934,604
Total liabilities		115,571,484
Deferred inflows of resources:		262,801
Net position:		
Net investment in capital assets		399,621,901
Restricted for:		
Debt service		5,990,231
Bond covenant		1,026,733
Unrestricted		67,107,474
Total net position	$	473,746,339

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

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2021

Operating revenues:		
Sewer charges	$	38,591,901
Facility and tap fees		5,092,060
Miscellaneous		1,770,022
Total operating revenues		45,453,983
Operating expenses:		
Salaries and employee benefits		8,640,936
Contractual services		1,810,481
Utilities		1,105,110
Repairs and maintenance		998,183
Other supplies and expenses		1,623,222
Insurance claims and expenses		2,351,485
Depreciation		12,394,875
Total operating expenses		28,924,292
Operating income		16,529,691
Nonoperating revenues (expenses):		
Investment income		30,582
Interest expense		(3,110,487)
Gain on disposal of surplus property		322,770
Total nonoperating revenues (expenses)		(2,757,135)
Income before contributions		13,772,556
Capital contribution		7,558,647
Special item - Cane Creek Water and Sewer District asset contribution from Henderson County		19,936,419
Change in net position		41,267,622
Total net position, beginning of year		432,478,717
Total net position, end of year	$	473,746,339

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

Statement of Cash Flows
For the Year Ended June 30, 2021

Cash flows from operating activities:		
Cash received from customers	$	43,273,745
Sales tax paid		54,340
Cash paid to employees for services		(5,729,510)
Cash paid for goods and services		(9,787,789)
Other operating revenue		1,765,200
Net cash provided by operating activities		29,575,986
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets		(21,132,188)
Proceeds from sale of surplus property		180,435
Proceeds from Insurance Claim		3,099,196
Proceeds from Cane Creek Water and Sewer District		1,863,288
Principal paid on bond maturities		(5,855,825)
Principal paid on other long-term obligation		(2,648,769)
Interest paid on bond maturities		(3,776,820)
Net cash used by capital and related financing activities		(28,270,683)
Cash flows from investing activities:		
Proceeds from sale of investments		80,069,023
Purchases of investments		(80,098,184)
Income on investments		98,697
Net cash provided by investing activities		69,536
Net increase in cash and cash equivalents		1,374,839
Cash and cash equivalents, July 1		62,169,551
Cash and cash equivalents, June 30	$	63,544,390
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	16,529,691
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		12,394,875
Changes in assets and liabilities:		
(Increase) in receivables		(360,697)
Decrease in inventory		6,787
Decrease in prepaid items		67,800
Increase in accounts payable and accrued expenses		288,820
Increase in other post-employment benefits		92,000
(Decrease) in accrued compensated absences		(37,809)
(Increase) in deferred outflows of resources - pensions		(333,903)
Decrease in deferred outflows of resources - other post-employment benefits		18,934
Increase in net pension liability		915,687
(Decrease) in deferred inflows of resources - other post-employment benefits		(23,000)
Increase in deferred inflows of resources - pensions		16,801
Total adjustments		13,046,295
Net cash provided by operating activities	$	29,575,986

Noncash investing, capital, and financing activities:

1. At various times during the Fiscal Year ended June 30, 2021, the District received contribution of sewer lines constructed by developers with a reported estimated fair value of $7,558,647.
2. During the Fiscal Year ended June 30, 2021, the District received the assets of Cane Creek Water and Sewer District from Henderson County with a reported estimated fair value of $20,708,103.
3. During the Fiscal Year ended June 30, 2021, a total of $3,600 of unrealized appreciation increased the fair value of investments not considered to be cash equivalents.

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

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Notes to Basic Financial Statements
June 30, 2021

Note 1—Summary of Significant Accounting Policies

The accounting policies of the Metropolitan Sewerage District of Buncombe County, North Carolina (District) conform to generally accepted accounting principles as applicable to enterprise-type governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The District is a public body and body politic and corporate of the State of North Carolina, created pursuant to the North Carolina Metropolitan Sewerage Districts Act (Article 5, Chapter 162A of the General Statutes of North Carolina, as amended). The District was established in 1962 by the North Carolina State Stream Sanitation Committee for the purpose of constructing and operating facilities for sewage treatment within the political subdivisions serviced by the District as listed below.

City of Asheville
Beaverdam Water and Sewer District
Town of Biltmore Forest
Town of Black Mountain
Busbee Sanitary Sewer District
Caney Valley Sanitary Sewer District
Crescent Hill Sanitary Sewer District
Woodfin Sanitary Water and Sewer District
Town of Montreat
Enka-Candler Water and Sewer District
Fairview Sanitary Sewer District
Skyland Sanitary Sewer District
Swannanoa Water and Sewer District
Town of Weaverville
Venable Sanitary District

On July 1, 2020, the District, pursuant to N.C. General Statute, §162A-68.5, acquired the Cane Creek Water and Sewer District in northern Henderson County. As required by G.S. 162A-68.5, two new members representing Henderson County were added to the Board.

Under the North Carolina Metropolitan Sewerage Districts Act, the District is authorized, among other things, to: **(a)** acquire, construct, improve, extend, maintain, and operate any sewerage system or part thereof (including facilities for the generation and transmission of electric power and energy) within or without the District; **(b)** to issue revenue bonds to pay the costs of any of the foregoing; and **(c)** to set and collect rents, rates, fees, and other charges for provision of sewerage services and the use of any District facilities.

The District Board consists of fourteen members appointed as follows: three from the County of Buncombe, three from the City of Asheville, two from the County of Henderson and one each from Woodfin Sanitary Water & Sewer District, and the Towns of Biltmore Forest, Black Mountain, Montreat, Woodfin, and Weaverville.

The District owns, operates, and maintains a Wastewater Treatment Plant as well as the related network of collector and interceptor sewers. The Treatment Plant has a capacity to treat up to 40 million gallons per day, but currently receives an average of 23.9 million gallons per day from approximately 57,000 residential and commercial customer accounts transported through approximately 1,032 miles of collector sewers.

The District's basic financial statements include all transactions of the District for which the District is financially accountable. Financial accountability is defined as appointment of a majority of a component unit's board and either the ability to impose the will of the District or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the District. Based on these criteria, the District has determined that there are no component units, which come under the criteria for inclusion. The District is not a component unit of any other governmental entity.

B. Basis of Presentation—Fund Accounting

The accounts of the District are organized and operated on the basis of funds in accordance with the District's Bond Order. A Fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenditures or expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The District presents the basic financial statements on an Enterprise Fund basis. The Enterprise Fund accounts for those operations **(a)** that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or **(b)** where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, and other purposes.

C. Measurement Focus and Basis of Accounting

The proprietary fund is 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. Proprietary Funds are presented in the financial statements on the accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period they are incurred.

D. Budgetary Data

Budgets are adopted as required by state statute and in compliance with the Bond Order. All annual appropriations lapse at fiscal year-end. The budget is prepared using the modified accrual basis of accounting, which is consistent with the accounting system used to record transactions during the fiscal year. Expenditures may not legally exceed appropriations at the functional level. Management is authorized to transfer appropriations within a department; however, any revisions that alter total expenditures of any function must be approved by the governing board. There were no budget amendments.

As required by North Carolina State law [G.S. 159-26(d)], the District maintains encumbrance accounts, which are considered to be “budgetary accounts”. Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in progress at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

E. 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 and loan association whose principal office is located in North Carolina. In addition, the Board 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 or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina, (the “State”); bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies, and certain high quality issues of commercial paper and bankers’ acceptances and the North Carolina Capital Management Trust (NCCMT).

The District's Bond Order limits investments to:

a. government obligations;

b. obligations of the following agencies: Federal Financing Bank, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (except for stripped mortgage securities which are purchased at prices exceeding their principal amounts), The Federal National Mortgage Association (except for stripped mortgage securities which are purchased at prices exceeding their principal amounts), the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration;

c. direct general obligations of the State secured by the full faith and credit and taxing power of the State rated in one of the two highest rating categories by Moody's and S&P;

d. bonds and notes of any North Carolina local government or public authority (other than the District), subject to such restrictions as the Secretary of the Local Government Commission may impose, provided such bonds or notes are rated in one of the two highest rating categories by Moody's and S&P;

e. savings certificates or certificates of deposit issued by any commercial bank or savings and loan association organized under the laws of the State or in any federal bank or savings and loan association having its principal office in the State; provided, however, that any principal amount of such certificates in excess of the amount insured by the federal government or any agency thereof; or by a mutual deposit guaranty association authorized by the Administrator of the Savings Institutions Division of the Department of Commerce of the State, be fully collateralized by obligations reserved by financial institution;

f. prime quality commercial paper (having original maturities of not more than 270 days) bearing the highest rating of Moody's and S&P and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation;

g. participating shares in the government portfolio of North Carolina Capital Management Trust, provided that the investments of such fund are limited to those qualifying for investment under this definition and that said fund is certified by the Local Government Commission;

h. a commingled investment pool established and administered by the State Treasurer pursuant to G. S. 147-69.3;

i. repurchase agreements with respect to Government Obligations if entered into with certain restrictions;

j. any other investment now or hereafter permitted for investment of funds by the District by the General Statutes of North Carolina, including, without limitation, Section 159-30 of the General Statutes of North Carolina.

The District's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The NCCMT Government Portfolio invest in treasuries and government agencies, is a money market fund (2a7), and maintains an AAAm rating from S&P and AAA-mf by Moody's Investor Service. It is reported at fair value.

F. Restricted Assets and Liabilities

Any unexpended bond proceeds from the revenue bonds issued by the District are classified as restricted assets because their use is completely restricted to the purpose for which the bonds were originally issued. Cash and investments included in the District's bond service and debt service reserve accounts are classified as restricted because their use is completely restricted for reserves and debt service of the outstanding bonds. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Any amounts payable from restricted assets are considered restricted liabilities. At June 30, 2021, the bond interest payable of $1,492,202, and the current portion of long-term debt of $6,120,825 represent total restricted liabilities of the District.

G. Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated based on the percentage of receivables that were written off in prior years. The allowance was $2,653,805 as of June 30, 2021.

H. Inventories

Inventories consist of materials and supplies held for consumption and expensed as used. Inventories are valued at cost (first-in, first-out) which approximates market.

I. Capital Assets

Capital assets, primarily property and equipment, are recorded at original cost at acquisition or construction. Donated capital assets received prior to July 1, 2016 are recorded at their estimated fair value at the date of donation. Donated capital assets received after July 1, 2016 are recorded at acquisition value. Any interest incurred during the construction phase of capital assets is reflected in the capitalized value of the assets constructed. Assets costing at least $15,000 and with a useful life of over one year are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed on the straight-line basis. Assets are depreciated based on useful life estimated by District engineers as follows. See Note 5 for further details.

Buildings/Waste Treatment Plants	50 years	Lab Equipment	5-10 years
Improvements other than Buildings	10-50 years	Maintenance Equipment	5-10 years
Waste Treatment/Pumping Stations Machinery	10-15 years	Automobiles/Trucks	5-10 years
Interceptor Sewer Lines	50-100	Communication Equipment	5-10 years
Collector Sewer Lines	50-100	Computer Equipment/Software	3-5 years
Office Furniture/Fixtures	10 years		

J. Deferred Outflows of Resources/Inflows of Resources

In addition to assets, the Statement of Financial Position reports 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 therefore will not be recognized as an expense or expenditure until that period. The District has six items that meet this criterion - unamortized bond refunding charges, accumulated decrease in fair value of hedging derivative, pension and OPEB deferrals, contributions made to the pension plan, and other post-employment benefits plan in 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 two items that meets the criterion for this category - deferrals of pension and OPEB expense that result from the implementation of GASB Statement 68 and 75.

K. Compensated Absences

The vacation policy of the District provides for the accumulation of up to forty (40) days earned vacation leave with such leave being fully vested when earned. Accordingly, an expense and a liability for compensated absences and any salary-related payments such as retirement contributions and payroll taxes are recorded. Accumulated earned vacation at June 30, 2021 is $887,292. See Note 3D for further details.

The District's sick leave policy provides for an unlimited accumulation of earned sick leave. Accumulated sick leave at June 30, 2021 amounts to approximately $2.96 million. 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 has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

L. Cash Equivalents

For the purposes of the Statement of Cash Flow, the District considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

M. Use of Estimates

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

N. Operating and Non-operating Revenues and Expenses

The District defines operating revenue and expenses as those directly received and incurred in the process of providing wastewater collection and treatment. Nonoperating revenues and expenses are those resulting from incidental functions such as investment income, interest expense on long-term debt, and sale of surplus equipment.

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS), and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The 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 LGERS. Investments are reported at fair value.

Note 2—Deposits and Investments

A. Deposits

All of the District's deposits are either insured or collateralized by using the Pooling Method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the District, these deposits are considered to be held by the District's agent in the District'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 amount 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 enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method and the District relies on the State Treasurer to monitor those financial institutions. The District's formally adopted investment policy attempts to mitigate custodial credit risk for deposits by pre-qualifying the financial institutions receiving funds. The District also 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 amount of $1,570,126 and a bank balance of $1,766,654. Of the bank balance, $296,692 was covered by federal depository insurance and $1,469,962 in interest-bearing deposits was covered by collateral held under the Pooling Method.

At June 30, 2021, the District had $350 cash on hand.

B. Investments

As of June 30, 2021, the District had the following investments and maturities.

Investment Type	Valuation Measurement Method	Fair Value	Less Than 6 Months	6 to 12 Months	1 to 3 Years	3 to 5 Years
Commercial Paper	Fair Value –Level 2	$13,996,631	$13,996,631	N/A	N/A	N/A
NC Capital Management Trust–Government	Fair Value –Level 1	61,973,914	61,973,914	N/A	N/A	N/A
Total		$75,970,545	$75,970,545	N/A	N/A	N/A

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2: Debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

» **Interest Rate Risk**—As a means of limiting its exposure to changes in fair value arising from rising interest rates, the District's formally adopted investment policy calls for structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and/or scheduled debt service, thereby avoiding the need to sell securities on the open market prior to maturity. In addition, the District invests operating funds primarily in shorter-term securities.

» **Credit Risk**—Credit risk is the risk of loss due to the failure of the security issuer or backer. The District's formally adopted investment policy mitigates credit risk by limiting investments to the safest types of securities and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. As of June 30, 2021, the District's investments in commercial paper were at least P-1 by Standard & Poor's, F-1 by Fitch Ratings, and A-1 by Moody's Investors Service. The District's investments in the NC Capital Management

Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2021.

» **Custodial Credit Risk**—For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's formally adopted investment policy requires all transactions to be conducted on a delivery-versus-payment (DVP) basis and to be held by a contracted third-party custodian and evidenced by safekeeping receipts. At June 30, 2021, the District did not have any investments exposed to custodial credit risk.

» **Concentration of Credit Risk**—The District's investment policy mitigates concentration of credit risk, that is, the risk from the failure of any one entity or industry, by limiting the maximum amount of the District's portfolio that may be invested in Bankers' Acceptances and Commercial Paper to 20% each.

In addition, the District's formally adopted policy limits investment in any single issue of a non-governmental entity to the greater of $5,000,000 or 1% of the entire portfolio.

C. Hedging Derivative Instrument

At June 30, 2021, the District had the following hedging derivative instrument:

				Changes in Fair Value				Fair Value - June 30, 2021	
Type	Objective	Valuation Measurement Method	Notional Amount	Classification	Amount	Effective Date	Maturity Date	Classification	Amount
Cash Flow Hedge:									
Pay-Fixed Interest Rate Swap	Hedge of changes in cash flows on the 2005/2008A Series Revenue Refunding Bonds	Fair Value Level 2	$25,015,000	Deferred Outflow of Resources	$1,221,001	1/6/2005	7/1/2031	Debt	$(3,018,824)

The fair value of the interest rate swap is determined using Level 2 inputs of the fair value hierarchy. Inputs used in determining the fair value of the interest rate swap include both observable and unobservable inputs. Observable inputs include the notional amount as shown above and the variable and fixed rates within the swap agreement as disclosed in Note 3c. Unobservable inputs include quoted market prices for similar instruments, discounted cash flow methodologies, or similar techniques.

The mark-to-market valuation was established by market quotations from the counterparty representing estimates of the amounts that would be paid for replacement transactions. Because the coupons on the District's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase.

» **Objective**—As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in January 2005, the District issued variable interest rate debt and entered into an interest rate exchange agreement (swap) in connection with its variable rate Series 2005 Revenue Refunding Bonds in the amount of $33,915,000. The intention of the swap was to effectively change the District's variable interest rate on the bonds to a synthetic fixed rate of 3.4175%.

  In April 2008, the District issued $33,635,000 in Series 2008A Revenue Refunding Bonds to currently refund the Series 2005 Revenue Refunding Bonds. The swap described above now applies to the Series 2008A Revenue Refunding Bonds. In April of 2020, the District amended the swap to eliminate the London Interbank Offered Rate(LIBOR) rate it receives as a variable payment. As a result the new synthetic fixed rate is 3.2910%.

» **Terms**—Under the initial terms of the swap, the District pays the counterparty a fixed payment of 3.4175% and receives a variable payment computed as 59% of the one-month LIBOR plus 35 basis points. In April of 2020, the District amended the term of the swap, the District pays the counterparty a fixed payment of 3.2910% and receives a variable payment computed as 100% of the Securities Industry and Financial Markets Association (SIFMA).

  The swap had an initial notional amount equal to the associated Series 2005 variable rate bond principal amount of $33,915,000. The swap was entered into at the same time the Series 2005 Bonds were issued in January of 2005.

  Starting in Fiscal Year 2006, the notional value of the swap and the principal amount of the associated debt declined in equal amounts. As the swap now applies to the Series 2008A Bonds, the remaining notional value of the swap is correlated to the variable rate bond principal amount of $33,635,000. Starting in Fiscal Year 2010, the notional value of the swap and the principal amount associated debt decline in similar amounts until the debt is completely retired. The notional amount outstanding is $25,070,000 as of June 30, 2021.

The bonds' variable rate coupons are determined by the remarketing agent based on prevailing market conditions. This usually approximates SIFMA. The bonds and the related swap agreement both mature on July 1, 2031.

» **Credit Risk**—As of June 30, 2021, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the swap's fair value. The swap counterparty was rated Aa2 by Moody's and A+ by Standard & Poor's, and AA by Fitch Ratings as of June 30, 2021. To mitigate the potential credit risk, if the counterparty's credit quality falls below Baa3 (Moody's) and BBB-(S&P), the value of the swap may be fully collateralized by the counterparty or by several other means specified in the International Swap Dealers Association (ISDA) Master Agreement and Counterparty Schedule.

» **Interest Rate/Basis Risk**—As noted above, the swap exposes the District to basis risk should the relationship between SIFMA and the bonds' variable rate coupns determined by the remarketing agent, changing the synthetic rate on the bonds.

The effect of this difference in basis is indicated by the difference between the intended synthetic rate of 3.2910% and the actual synthetic rate for the period ending June 30, 2021 of 3.2710%. As of June 30, 2021, the rate on the District's bonds was 0.02% whereas 100% of SIFMA was 0.04%. If a change occurs that results in the rates' moving in a direction unfavorable to the District, the expected cost savings may not be realized.

» **Termination Risk**—The interest rate exchange contract uses the ISDA Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The ISDA Schedule to the Master Agreement includes an "additional termination event." That is, the swap may be terminated by the District if the counterparty's credit quality rating falls below Baa3 (Moody's) and BBB-(S&P). The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap was terminated, the variable-rate bonds would no longer carry a synthetic interest rate. In addition, if at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap's fair value.

» **Market Access Risk/Rollover Risk**—The District's interest rate exchange contract is for the term (maturity) of the bonds and, therefore, there is no market-access risk or rollover risk.

Note 3—Long-Term Obligations

A. Long-Term Debt

The District issues debt to help finance the cost of rehabilitation of wastewater interceptor and collection infrastructure, and treatment plant facilities. All debt is secured by a pledge of and payable from net receipts and certain other moneys. In the event of a default, the District agrees to pay to the purchaser, on demand, interest on any and all amounts due and owing by the District under the related agreements. Unlike cities and counties, the District has no legal debt limit. However, the District must comply with the legal requirements contained in its Bond Order as described in Note 11.

The District's borrowings are subject to federal arbitrage regulations; however, management does not anticipate any material liability for arbitrage from any of these debt issues.

The District currently has the following issues outstanding:

	Original Issue Amount
Revenue Bonds:	
Enka-Candler Water & Sewer District Bonds	$ 1,451,000
Series 2008A, Revenue Refunding Bonds	33,635,000
Series 2013, Revenue Refunding Bonds	30,230,000
Series 2014, Revenue Bonds	26,195,000
Series 2017, Revenue and Refunding Bonds	37,485,000
Direct Borrowings - State Revolving Fund:	
2009 North Carolina Water Pollution Control Revolving Fund	$ 672,980

The following is a summary of changes in the Districts' long-term debt for the Fiscal Year ended June 30, 2021:

	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021
Revenue Bonds:				
Enka-Candler Water and Sewer District Bonds liability assumed by the Metropolitan Sewerage District of Buncombe County, North Carolina on July 2, 1990 as stated in the sewer consolidation agreement:				
5.00% serial bonds assumed July 2, 1990 with maturities on each June 1, through 2024 varying from $19,000 to $64,000, interest payable annually	$ 212,000	$ -	$ 64,000	$ 148,000
Total Bonds – Enka-Candler Series	$ 212,000	$ -	$ 64,000	$ 148,000
Revenue Refunding Bonds, Series 2008A issued to refund the Series 2005 Revenue Refunding Bonds:				
Interest at variable rates in the weekly mode, payable monthly, due serially until 2031	$ 27,145,000	$ -	$ 2,075,000	$ 25,070,000
Total Bonds – Series 2008A	$ 27,145,000	$ -	$ 2,075,000	$ 25,070,000
Revenue Refunding Bonds, Series 2013 issued to refund Series 2003 and Series 2008B Revenue Refunding Bond:				
2.0% to 5.00% serial bonds issued May 1, 2013, with maturities on each July 1, 2014 through 2029 varying from $1,065,000 to $4,255,000: interest payable semi-annually	$ 13,725,000	$ -	$ 1,760,000	$ 11,965,000
Total Bond – Series 2013	$ 13,725,000	$ -	$ 1,760,000	$ 11,965,000
Revenue Bonds, Series 2014 issued to construct certain sewerage projects:				
2.0% to 5.00% serial bonds issued May 21, 2014, with maturities on each July 1, 2016 through 2039 varying from $535,000 to $1,430,000: interest payable semi-annually	$ 18,170,000	$ -	$ 770,000	$ 17,400,000
5.00% term bonds issued May 21, 2014, at 112.950%, due July 1, 2039: interest payable semi-annually	$ 4,685,000	$ -	$ -	$ 4,685,000
Total Bond – Series 2014	$ 22,855,000	$ -	$ 770,000	$ 22,085,000

	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021
Revenue Bonds (continued):				
Revenue Bonds, Series 2017 issued to construct certain sewerage projects and to refund portions of Series 2009A:				
3.0% to 5.00% serial bonds issued July 11, 2017, with maturities on each July 1, 2018 through 2039 varying from $620,000 to $2,260,000: interest payable semi-annually	$ 31,725,000	$ -	$ 1,170,000	$ 30,555,000
5.00% term bonds issued July 11, 2017, at 97.704%, due July 1, 2042: interest payable semi-annually	$ 4,520,000	$ -	$ -	$ 4,520,000
Total Bond – Series 2017	$ 36,245,000	$ -	$ 1,170,000	$ 35,075,000
Total Revenue Bonds	$ 100,182,000	$ -	$ 5,839,000	$ 94,343,000

	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021
Direct Borrowings - State Revolving Fund:				
2009 North Carolina Water Pollution Control Revolving Fund used to construct certain sewerage projects:				
$672,980 revolving loan issued August 18, 2009 unpaid principal sum is reduced by one-half as "Principal Forgiveness", interest accrues at 0%, 20 annual installments May 1, 2011 to 2030	$ 168,240	$ -	$ 16,825	$ 151,415
Total Direct Borrowings - State Revolving Fund	$ 168,240	$ -	$ 16,825	$ 151,415
Total Long-Term Obligations	100,350,240	-	5,855,825	94,494,415
Plus, net unamortized discounts and premiums	4,635,886	-	768,392	3,867,494
	$ 104,986,126	$ -	$ 6,624,217	$ 98,361,909
Series 2008A	2,075,000			2,160,000
Series 2013	1,760,000			1,830,000
Series 2014	770,000			810,000
Series 2017	1,170,000			1,240,000
Direct Borrowings - 2009 State Revolving Fund	16,825			16,825
Enka-Candler	64,000			64,000
Less current portion	5,855,825			6,120,825
	$ 99,130,301			$ 92,241,084

Maturities of long-term debt are as follows:

Year Ending June 30:	Serial Maturity	Principal Mandatory Sinking Fund Requirements (Term Bonds)	Total	Interest
2022	$ 6,120,825	$ -	$ 6,120,825	$ 3,588,425
2023	6,360,824	-	6,360,824	3,341,414
2024	5,631,824	-	5,631,824	3,102,843
2025	5,091,824	735,000	5,826,824	2,969,912
2026	5,281,824	770,000	6,051,824	2,633,643
	28,487,121	1,505,000	29,992,121	15,536,237
Five Years:				
2031	26,477,294	4,495,000	30,972,294	9,303,275
2036	14,180,000	3,285,000	17,465,000	4,410,139
2041	6,860,000	6,145,000	13,005,000	1,637,212
2043	-	3,060,000	3,060,000	96,406
	$ 76,004,415	$ 18,490,000	$ 94,494,415	$ 30,983,269

The revenue bonds are secured by and payable solely from all sewer revenues of the District after provisions for operating expenses and from certain reserves and other monies of the District, as described in the Bond Order. Additional remittance requirements to the trustee for a sinking fund to redeem the term bonds, subordinated indebtedness outstanding, if any, and other purposes are set forth in the Bond Order.

B. Variable Debt

» **Interest Rates**—Interest rates for variable debt change weekly as determined by the responsible remarketing agent based on competitive municipal bond rates in the secondary market.

» **Liquidity Agreement**—The District has entered into a remarketing agreement with Wells Fargo to perform various functions in connection with the Series 2008A variable debt. The Remarketing Agent's major responsibilities include u soliciting of purchases of Bonds from qualified investors, v processing and recordkeeping for such purchases, w billing and receiving payment for Bonds purchased, and x determining the interest rate on the Bonds as provided in the Series Resolution.

C. Hedging Derivative and Associated Hedged Debt

As of June 30, 2021, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows.

As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable Rate Bonds		Interest Rate	
	Principal	Interest	Swap, Net	Total
2022	2,160,000	4,618	750,656	2,915,274
2023	2,235,000	4,172	678,199	2,917,371
2024	2,320,000	3,710	603,006	2,926,716
2025	2,400,000	3,231	525,199	2,928,430
2026	2,485,000	2,735	444,642	2,932,377
2027	2,585,000	2,220	360,875	2,948,095
2028	2,685,000	1,685	273,856	2,960,541
2029	2,785,000	1,129	183,587	2,969,716
2030	2,890,000	553	89,917	2,980,470
2031	1,240,000	278	45,135	1,285,413
2032	1,285,000	21	3,481	1,288,502
	$ 25,070,000	$ 24,352	$ 3,958,553	$ 29,052,905

The computations above are based on the following interest assumptions.

	Terms	Rates at June 30, 2021
Interest Rate Swap:		
Fixed Payment to Counterparty	Fixed	3.2910%
Variable Payment from Counterparty	100% of SIFMA	(0.0400%)
Net Interest Rate Swap Payments		3.2510%
Variable-rate Bond Coupon Payments	Remarketed Rate	0.0200%
Synthetic Interest Rate on Bonds		3.2710%

D. Compensated Absences

Changes to the liability for compensated absences were as follows:

Balance - June 30, 2020	$	925,101
Additions		617,693
Withdrawals		(655,502)
Balance - June 30, 2021	$	887,292

The District accounts for compensated absences on a LIFO basis, assuming that employees are taking leave time as it is earned. For the year ended June 30, 2021, the District estimates that $60,000 is the current portion of this liability.

E. Net Pension Liability (LGERS)

Changes to the net pension liability (LGERS) were as follows:

Balance - June 30, 2020	$	3,257,717
Additions		915,687
Withdrawals		-
Balance - June 30, 2021	$	4,173,404

Note 4—Capital Assets

A summary of changes in capital assets follows below.

	Balance June 30, 2020	Additions	Disposals	Transfers	Balance June 30, 2021
Capital Assets Not Being Depreciated					
Land	$ 2,515,666	$ 258,314	$ -	$ -	$ 2,773,980
Easements	10,562,044	66,136	-	488,848	11,117,028
Construction in Progress	14,130,635	21,938,932	-	(15,299,024)	20,770,543
Total Capital Assets Not Being Depreciated	27,208,345	22,263,382	-	(14,810,176)	34,661,551
Capital Assets Being Depreciated					
Bldgs. & Waste Treatment Plants	53,941,734	-	(4,849,541)	-	49,092,193
Improvements & Other than Bldgs.	7,347,988	-	-	83,587	7,431,575
Machinery & Equipment	77,706,337	885,894	(3,226,482)	1,798,764	77,124,513
Interceptor Sewer Lines	121,842,828	-	(29,624)	4,664,328	126,477,532
Collector Lines	364,385,457	32,076,493	(243,199)	8,209,212	404,428,663
Automobiles & Trucks	5,894,299	801,018	(343,687)	53,585	6,405,215
Computer Equipment	1,337,293	-	59,178)	-	1,278,115
Office Furniture & Equipment	631,757	-	-	-	631,757
Total Capital Assets Being Depreciated	633,087,693	33,763,405	(8,791,711)	14,810,176	672,869,563
Less Accumulated Depreciation					
Bldgs. & Waste Treatment Plants	(25,833,794)	(1,018,145)	2,365,978	-	(24,485,961)
Improvements & Other than Bldgs.	(5,347,525)	(324,494)	-	-	(5,672,019)
Machinery & Equipment	(46,970,296)	(3,960,391)	2,825,839	-	(48,104,848)
Interceptor Sewer Lines	(28,170,722)	(1,361,920)	29,624	-	(29,503,018)
Collector Lines	(83,594,078)	(13,446,351)	210,544	-	(96,829,885)
Automobiles & Trucks	(4,237,906)	(591,112)	343,687	-	(4,485,331)
Computer Equipment	(1,293,246)	(37,221)	59,178	-	(1,271,289)
Office Furniture & Equipment	(582,382)	(13,481)	-	-	(595,863)
Total Accumulated Depreciation	(196,029,949)	(20,753,115)	5,834,850	-	(210,948,214)
Total Capital Assets	437,057,744	13,010,290	(2,956,861)	14,810,176	461,921,349
	$464,266,089	$ 35,273,672	$(2,956,861)	$ -	$ 496,582,900

- **Contributed Infrastructure**—The District's responsibility is to maintain existing collector and interceptor sewer lines as well as to provide wastewater treatment. The majority of sewer lines added to the District are constructed by member agencies or developers and donated to the District. Occasionally, owners of private lines will petition the District to take over their sewer lines as well. This infrastructure must meet minimum District engineering standards, and when accepted by Board action, the District assumes all responsibility for future maintenance and rehabilitation. During the year ended June 30, 2021, the District accepted capital assets with an acquisition value of $7,558,647.

  As of July 1, 2020 Henderson County transferred the operations of the Cane Creek Water and Sewer District (CCWSD) to the District. All remaining assets and liabilities of CCWSD were transferred to the District. This included $2,182,349 of cash, $1,427,414 of accounts receivable net of allowance for doubtful accounts as well as $29,138,343 in capital assets with accumulated depreciation of $8,358,240. The District also assumed $4,453,447 in liabilities. As of June 30, 2021, all liabilities of CCWSD were paid.

- **Easements**—The District acquires right-of-way easements in the course of sewer line rehabilitation projects. These easements have an indefinite useful life and are recorded at cost.

Note 5—Pension Plan Obligation

A. North Carolina 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 Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Annual Comprehensive Financial Report for the State of North Carolina.

The State's Report 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.

- **Benefits Provided**—LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60.

  Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

- **Contributions**—Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. District employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The District's contractually required contribution rate for the year ended June 30, 2021 was 10.15% 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 $922,750 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, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**—At June 30, 2021, the District reported a liability of $4,173,404 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 update 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 0.11679% measured as of June 30, 2020, which was a decrease of 0.00250% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the District recognized pension expense of $1,521,335. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 527,028	$ -
Changes in assumptions	310,583	-
Net difference between projected and actual investment earnings	587,294	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	52,032	16,801
District's contribution subsequent to the measurement date	922,750	-
Total	$ 2,399,687	$ 16,801

$922,750 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:		
2022	$	419,230
2023		546,973
2024		320,124
2025		173,809
2026		-
Thereafter		-

– **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
Salary 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, 2020 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	100%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2020 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 3.05%. 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 Liability 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 7.0%, 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 (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
District's proportionate share of the net pension liability (asset)	$ 8,467,382	$ 4,173,404	$ 604,806

– **Pension Plan Fiduciary Net Position**—Detailed information about the pension plan's fiduciary net position is available in the separately issued Annual Comprehensive Financial Report for the State of North Carolina.

B. Supplemental Retirement Income Plan for Non-Law Enforcement Officers 401(k) Plan

– **Plan Description**—The District contributes to the Supplemental Retirement Income Plan of North Carolina, often referred to as the State's 401(k) Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to employees of the District who are members of LGERS. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

– **Funding Policy**—Employee contributions are voluntary and must conform to applicable IRS limits. The District has a graduated matching contribution plan as follows: if an employee contributes 1%, 2%, or 3%, the District will contribute 2%, 4%, or 5%, respectively, of their salary to either the 401(k) Plan or the 457 Plan described below. The District Board has the authority to establish and amend contribution requirements. During the year ended June 30, 2021, a total of $377,656 and $424,061 were contributed by the District and employees, respectively.

C. Deferred Compensation Plan

– **Plan Description**—The District also offers its employees a Deferred Compensation Plan, another type of defined contribution plan, established under the Internal Revenue Code Section 457. The Plan allows employees to defer receipt and taxation of a portion of their salary until future years.

  The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Plan is administered by a third-party administrator who establishes and amends benefit provisions within the provisions of the Internal Revenue Code Section 457.

  All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, and rights (until paid or made available to the employee or other beneficiary) are held in trust for the exclusive benefit of participants and their beneficiaries. As such, these assets and the related obligations are not reported in these financial statements.

– **Funding Policy**—Employee contributions are voluntary and must conform to applicable IRS limits. The District has a graduated matching contribution plan as follows: if an employee contributes 1%, 2%, or 3%, the District will contribute 2%, 4%, or 5%, respectively, of their salary to either the 401(k) Plan described above or a 401(a) Plan. The District Board has the authority to establish and amend contribution requirements. During the year ended June 30, 2021, $24,091 and $24,291 were contributed by the District and employees, respectively, to the deferred compensation plan.

Note 6—Other Employment Benefits

A. Death Benefits

– **Plan Description**—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 his/her death, but the benefit may not be below $25,000 or exceed $50,000. All death benefit payments are made from the Death Benefit Plan. The District has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Because the benefit payments are made by the Death Benefit Plan and not by the District, the District does not determine the number of eligible participants. 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. The District considers these contributions to be immaterial.

Note 7—Other Post-Employment Benefits

A. Healthcare Benefits

– **Plan Description**—Under terms of a District resolution, the District administers a single-employer defined benefit group health and dental insurance plan (the GHD Plan). The District Board has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. However as of June 30, 2021, the District set aside $2,245,326. These funds are to be used to meet the District's future post-employment obligation.

– **Benefits Provided**—As of May 14, 2008, the plan allows retirees to continue coverage under the Districts' self-insured group health and dental insurance plan until the earlier of u reaching age 65; or v becoming covered under another group medical plan; or w failing to timely pay any required premium for such coverage.

The District will pay the premium cost for the eligible retired employee as follows:

Years of Service	Subsidy Vesting %
30 years at any age	100%
25 years at 55 years of age	90%
20 years at 55 years of age	80%
15 years at 55 years of age	65%
10 years at 55 years of age	55% - Existing Employees 50% - Employees hired after 7/1/08
5 years at 55 years of age	50% - Existing Employees

In addition, the District's retirees can purchase coverage for their spouse at full actuarial cost. The District's Board may amend the benefit provisions. A separate report was not issued for the plan.

Membership in the District's GHD Plan consisted of the following at July 1, 2019, the date of the latest actuarial valuation:

	Employees
Retirees Receiving Benefits	16
Active Plan Members	145
Total	161

B. Total OPEB Liability

The District's total OPEB liability of $3,674,000 was measured as of July 1, 2020 and was determined by an actuarial valuation as of July 1, 2020.

† **Actuarial Assumptions and Other Inputs**—The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Salary Increases	3.00 percent
Discount Rate	2.45 percent
Healthcare cost trend rates	3.77 percent for fiscal year end 2020(to reflect actual experience), then 6.75 percent for fiscal year end 2021, decreasing 0.25 percent per year to an ultimate rate of 5.00 percent

The discount rate is based on the yield of the Fidelity Municipal Bond 20-Year Municipal GO AA Index as of the measurement date.

† **Changes in the Total OPEB Liability**

		Total OPEB Liability
Balance at July 1, 2020	$	3,582,000
Changes for the year		
Service cost		189,000
Interest		113,000
Changes of benefit terms		-
Differences between expected and actual experience		(75,000)
Changes in assumptions or other inputs		-
Other changes		159,000
Benefit payments		(294,000)
Net changes		92,000
Total	$	3,674,000

Mortality rates were based on the RP-2014 Fully Generation Mortality Table, with base year 2006, using two-dimensional improvement scale MP-2020.

The actuarial assumptions used in the July 1, 2020 valuation were based on the results of an actuarial experience study for the period July 2019 through June 2020.

† **Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**—The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.45 percent) or 1-percentage-point higher (3.45 percent) than the current discount rate:

	1% Decrease	Discount Rate (2.45%)	1% Increase
Total OPEB Liability	$ 3,914,000	$ 3,674,000	$ 3,443,000

† **Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates**—The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (2.77 percent) or 1-percentage-point higher (4.77 percent) than the current healthcare cost trend rates:

	1% Decrease	Discount Rate (Medical-3.77%)	1% Increase
Total OPEB Liability	$ 3,304,000	$ 3,674,000	$ 4,104,000

† **OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB**—For the year ended June 30, 2021, the District recognized OPEB expense of $354,236. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 86,000	$ 246,000
Changes in assumptions	513,000	-
Benefit payments and administrative costs made subsequent to the measurement date	256,360	-
Total	$ 855,360	$ 246,000

$256,360 reported as deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ended June 30, 2022.

Other amounts reported as deferred inflows and outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:	
2022	$ 48,000
2023	48,000
2024	89,000
2025	97,000
2026	59,000
Thereafter	12,000

Note 8—Risk Management

The District has established a self-insured group health and dental insurance program, which provides medical coverage up to a maximum of $70,000 per employee, and approximately $2,500,000 in the aggregate. The District purchases commercial insurance for claims in excess of coverage.

All employees participate in the program and are responsible for premium and co-payment amounts as determined by the District. Charges to the Enterprise Fund are adjusted annually so that the program revenues and expenses are approximately equal and there is an adequate amount in reserves in the event the District decides to discontinue the plan. The accrued self-insurance claims liability of $505,657 reported at June 30, 2021 represents estimated claims liabilities, including incurred but not reported losses, at the estimated ultimate cost of settling the claims using historical experience as determined by the Third-Party Administrator (TPA).

Changes since inception in the claim's liability amount are as follows:

Fiscal Years Ended June 30	Beginning of Fiscal Year Liability	Current Year Claims & Changes in Estimates	Claim Payments	Balances at Fiscal Year End
2020	$ 319,466	$ 1,908,124	$ 2,024,810	$ 202,780
2021	$ 202,780	$ 2,187,738	$ 1,884,861	$ 505,657

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 participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities.

Through these pools, the District obtains general liability and auto liability coverage, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of $500,000 and $300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The District carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

The District carries flood insurance through the National Flood Insurance Plan (NFIP). Because the District's structures, situated adjacent to the French Broad River, are in an "A" area designated by the Federal Emergency Management Agency (FEMA), the District has purchased coverage in the maximum amount of $500,000 through the NFIP for each eligible structure. Management believes this will be adequate to remediate flood damage to exposed buildings and their contents.

In accordance with G.S. 159-29, the District has adopted a system of blanket faithful performance bonds for all employees and has purchased coverage of $100,000 from a commercial insurance carrier. The Finance Officer is individually bonded for $250,000.

Note 9—Construction in Progress and Future Expansion Plans

During the year ended June 30, 2002, consulting engineers finalized a comprehensive twenty-year Wastewater System Master Plan to guide the District in reducing sanitary sewer overflows (SSOs) as well as keeping up with the maintenance and management of its infrastructure. The plan estimated that the District would need to spend approximately $257 million over a twenty-year period. Portions of this Master Plan are periodically updated as required to meet the needs identified by engineering staff for the Water Reclamation Facility and the collector and interceptor sewer lines. The District uses these plans, along with other resources including representatives from the member agencies, to develop a ten-year Capital Improvement Plan projected to spend an average of $33.1 million annually. The District expects to fund these costs out of user charges along with the issuance of additional bonds.

As of June 30, 2021, the District had begun sewer projects expected to incur future costs of approximately $162.3 million, and the District is committed under various contracts encumbered for sewer construction and rehabilitation estimated to cost $3.2 million to complete. The majority of encumbered contracts are expected to be completed within the next fiscal year, and the projects currently under construction are scheduled to be completed within the next two to five years.

Note 10—Bond Covenants

The District is subject to the 1999 Amended Bond Order, which contains several operational directives including internal accounting fund structure, disclosure of financial records, and setting rates. The District was in compliance with all requirements of the Bond Order during the year ended June 30, 2019. A copy of the Bond Order may be obtained by contacting the Director of Finance.

The District is required by the 1999 Amended Bond Order to set rates as summarized by the following:

> *The District covenants to set rates and charges so that the Income Available for Debt Service (defined as the excess of "Revenues" over "Current Expenses") will not be less than the greater of (i) one hundred twenty percent (120%) of the Long-Term Debt Service Requirement for Parity Indebtedness only for such Fiscal Year and (ii) one hundred percent (100%) of the Long-Term Debt Service Requirement for Parity Indebtedness and Subordinated Indebtedness for such Fiscal Year.*

The definition of revenues for this purpose does not include grants, contributions, investment income credited to non-operating funds, or tap and connection fees. However, tap and connection fees may be considered revenues upon a resolution duly passed by the Board. Current expenditures include operating expenses other than additions to reserve funds, depreciation or amortization, or debt service payments.

Long-Term Debt Service Requirement means the aggregate of the required deposits to be made in respect of principal and interest.

The various Bond Series Resolutions require either monthly or semi-annual deposits of the upcoming principal and interest payments to be received by the Trustee at least one day prior to the payment date. In other words, during the Fiscal Year ended June 30, 2021, the Long-Term Debt Service Requirement equaled principal and interest due on January 1, 2021 and July 1, 2021.

The District does not currently have any subordinated indebtedness, so the computation of the current fiscal year's compliance with this covenant is based solely on 120% of the debt service requirement as follows:

Operating Revenues	$ 45,453,983
Interest and Non-Operating Revenues	353,352
Adjustments to Revenues:	
Interest Income allocable to Non-Operating Funds	(2,174)
Facility, Tap, and Other Fees	(5,156,619)
Gain on Disposal of Property	(322,770)
Adjusted Revenues	40,325,772
Operating Expenses	(28,924,292)
Adjustments to Expenses:	
Pension plan and OPEB contributions net of expense	220,556
Trustee and liquidity expense capitalized	(132,255)
Add back Depreciation	12,394,875
Adjusted Operating Expenses	(16,441,116)
Income Available for Debt Service	$ 23,884,656
Long-Term Debt Service Requirement	$ 9,811,696
Minimum Required Percentage	120%
Minimum Required Income	$ 11,774,035

Therefore, the District is in compliance with the rate covenant as income available for debt service is in excess of 120% of the annual required debt service. The actual coverage ratio is 243%.

Note 11—Deferred Outflows and Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Unamortized bond refunding charges	$ 1,400,910	$ -
Accumulated decrease in fair value of hedging derivative	3,018,824	-
Pensions – difference between expected and actual experience	527,028	-
Pensions – change in assumptions	310,583	-
Pensions – net difference between projected and actual investment earnings	587,294	-
Pensions – changes in proportion and difference between employer contributions and proportionate share of contributions	52,032	16,801
Contributions to pension plan in 2018-2019 Fiscal Year	922,750	-
OPEB- difference between expected and actual experience	86,000	246,000
OPEB-Changes in assumptions	513,000	-
OPEB-benefit payments and administrative cost made subsequent to measurement date	256,360	-
Total	$ 7,674,781	$ 262,801

Note 12—Hydroelectric Power

The District operates a hydroelectric generation facility on the French Broad River in proximity to the wastewater treatment plant. In some years with above average rainfall, sufficient quantities of electricity are produced to supply all of the plant's needs with excess electricity generated being sold to Duke Energy Progress. During the year ended June 30, 2021, the District generated power used by the plant, which was estimated to have a net cost after deducting expenditures to generate such power of approximately $483,824 if purchased. This is considerably higher than in prior years due to rainfall that was significantly above average levels.

Note 13—Claims and Judgments

The District may be a party to lawsuits arising from the ordinary conduct of business. In the opinion of management, settlement of actual or possible litigation, if any, will not have a material effect on the financial position of the District.

Required Supplemental Information

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Local Government Employees' Retirement System

Required Supplemental Information

Schedule of the District's Proportionate Share of the Net Position Liability (Asset)

Last Eight Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset) %	0.117%	0.119%	0.120%	0.124%	0.126%	0.126%	0.125%	0.126%
District's proportionate share of the net pension liability (asset) $	$ 4,173,404	$ 3,257,717	$ 2,851,318	$ 1,896,515	$ 2,678,811	$ 563,911	$ (734,825)	$ 1,517,578
District's covered payroll	$ 9,236,242	$ 9,081,052	$ 8,788,983	$ 8,600,473	$ 8,383,296	$ 8,043,516	$ 7,906,515	$ 7,768,717
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	45.19%	35.87%	32.44%	22.05%	31.95%	7.01%	(9.29%)	19.53%
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.

Local Government Employees' Retirement System

Required Supplemental Information

Schedule of District Contributions

Last Eight Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	$ 922,750	$ 816,121	$ 698,651	$ 654,448	$ 614,323	$ 553,176	$ 564,473	$ 555,232
Contributions in relation to the contractually required contribution	922,750	816,121	698,651	654,448	614,323	553,176	564,473	555,232
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Districts's covered payroll	$ 9,159,822	$ 9,236,242	$ 9,081,052	$ 8,788,983	$ 8,600,473	$ 8,383,296	$ 8,043,516	$ 7,906,515
Contributions as a percentage of covered payroll	10.07%	8.84%	7.69%	7.45%	7.14%	6.60%	7.02%	7.02%

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

Schedule of Changes in the Total OPEB Liability and Related Ratios

Last Four Fiscal Years*

	2021	2020	2019	2018
Total OPEB Liability				
Service cost	$ 189,000	$ 162,000	$ 161,000	$ 156,000
Interest	113,000	109,000	110,000	106,000
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(75,000)	124,000	(441,000)	-
Changes of assumptions	159,000	433,000	188,000	-
Benefit payments	(294,000)	(168,000)	(69,000)	(226,000)
Net change in total OPEB liability	92,000	660,000	(51,000)	36,000
Total OPEB liability - beginning	3,582,000	2,922,000	2,973,000	2,937,000
Total OPEB liability - ending	$ 3,674,000	$ 3,582,000	$ 2,922,000	$ 2,973,000
Covered payroll	$ 8,335,863	$ 8,335,863	$ 8,502,682	$ 8,261,415
Total OPEB liability as a percentage of covered payroll	44.07%	42.97%	34.37%	35.99%

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

Notes to Schedule:

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2021	2020	2019	2018
2.45%	3.13%	3.62%	3.56%

In 2019, amounts reflect a 1 percentage point increase in healthcare cost trend rates decreasing .50 percent point from the prior year and adjustments in mortality rates to better reflect actual plan experience.

In 2020, amounts reflect a 1 percentage point decrease in healthcare cost trend rates decreasing .25 percent point from the prior year and adjustments in mortality rates to better reflect actual plan experience. Finally, the District also adjusted retirement rates based on actual experience from July 2015 through December 2019. This is to better reflect actual retirement plan experience.

In 2021, amounts reflect a .25 percentage point decrease in healthcare cost trend rates decreasing .25 percent point from the prior year and adjustments in mortality rates to better reflect actual plan experience.

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Supplemental Financial Data

Comparative Statement of Net Position

June 30, 2021 and 2020

	2021	2020
Assets:		
Current assets:		
Cash and cash equivalents	$ 55,035,224	$ 53,831,628
Investments	13,996,631	14,022,192
Restricted cash and cash equivalents	7,482,433	7,327,883
Receivables (net):		
Accounts	6,835,102	6,424,828
Sales	467,812	522,152
Employee	19,480	14,658
Interest	-	71,715
Inventories	457,028	463,815
Prepaid expenses	2,500	70,300
Total current assets	84,296,210	82,749,171
Noncurrent assets:		
Restricted cash and cash equivalents	1,026,733	1,010,040
Capital Assets:		
Land	2,773,980	2,515,666
Easements	11,117,028	10,562,044
Plant and equipment	672,869,563	633,087,693
Construction in progress	20,770,543	14,130,635
Less: accumulated depreciation	(210,948,214)	(196,029,949)
Total property and equipment	496,582,900	464,266,089
Total noncurrent assets	497,609,633	465,276,129
Total assets	581,905,843	548,025,300
Deferred outflows of resources:	7,674,781	8,779,953
Liabilities and Net Position:		
Current liabilities:		
Payments from current assets:		
Accounts payable and accrued expenses	3,963,853	5,477,426
Current portion of compensated absences payable	60,000	50,000
Payments from restricted cash and cash equivalents:		
Bond interest payable	1,492,202	1,590,341
Current portion of long term debt	6,120,825	5,855,825
Total current liabilities	11,636,880	12,973,592
Noncurrent liabilities:		
Compensated absences, net of current portion	827,292	875,101
Other post-employment benefit	3,674,000	3,582,000
Net pension liability	4,173,404	3,257,717
Derivative liability	3,018,824	4,238,825
Bonds payable, net of current maturities	92,241,084	99,130,301
Total noncurrent liabilities	103,934,604	111,083,944
Total liabilities	115,571,484	124,057,536
Deferred inflows of resources:	262,801	269,000
Net position:		
Net investment in capital assets	399,621,901	360,881,071
Restricted for:		
Debt service	5,990,231	5,737,542
Bond covenant	1,026,733	1,010,040
Unrestricted	67,107,474	64,850,064
Total net position	$ 473,746,339	$ 432,478,717

Comparative Statement of Revenues, Expenses, and Changes in Net Position

For the Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
Operating revenues:		
Sewer charges	$ 38,591,901	$ 37,371,562
Facility and tap fees	5,092,060	5,737,611
Miscellaneous	1,770,022	731,965
Total operating revenues	45,453,983	43,841,138
Operating expenses:		
Salaries and employee benefits	8,640,936	8,762,073
Contractual services	1,810,481	1,619,078
Utilities	1,105,110	1,205,899
Repairs and maintenance	998,183	975,618
Other supplies and expenses	1,623,222	1,559,480
Insurance claims and expenses	2,351,485	2,106,989
Depreciation	12,394,875	11,337,087
Total operating expenses	28,924,292	27,566,224
Operating income	16,529,691	16,274,914
Nonoperating revenues (expenses):		
Investment income	30,582	1,215,565
Interest expense	(3,110,487)	(3,292,282)
Gain on disposal of surplus property	322,770	(121,183)
Total nonoperating expenses	(2,757,135)	(2,197,900)
Income before contributions	13,772,556	14,077,014
Capital contribution	7,558,647	4,281,722
Special item - Cane Creek Water and Sewer District asset contribution from Henderson County	19,936,419	-
Change in net position	41,267,622	18,358,736
Total net position, beginning of year	432,478,717	414,119,981
Total net position, end of year	$ 473,746,339	$ 432,478,717

Schedule of Revenues and Expenditures
Budget to Actual (Non-GAAP)
For the Year Ended June 30, 2021

	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Operating revenues:			
Sewer charges (net):			
Domestic users	$ 32,234,286	$ 34,703,937	$ 2,469,651
Industrial users	2,881,690	3,497,070	615,380
Billings and collections	934,101	983,058	48,957
	36,050,077	39,184,065	3,133,988
Facility and tap fees	2,175,000	5,092,060	2,917,060
City of Asheville (Enka Bonds)	35,000	30,586	(4,414)
Rental income	71,641	79,445	7,804
Miscellaneous	6,710,728	4,759,187	(1,951,541)
Total operating revenues	45,042,446	49,145,343	4,102,897
Nonoperating revenues:			
Investment income	433,837	30,582	(403,255)
Total nonoperating revenues	433,837	30,582	(403,255)
Total revenues	45,476,283	49,175,925	3,699,642
Expenses:			
Operating expenses:			
Salaries and employee benefits		8,168,377	
Contractual services		1,810,481	
Utilities		1,105,110	
Repairs and maintenance		998,183	
Other supplies and expenses		1,545,415	
Insurance claims and expenses		2,048,608	
Total operating expenses	17,462,663	15,676,174	1,786,489
Capital Projects:			
Equipment		757,604	
Infrastructure		18,407,385	
Total capital projects	32,800,781	19,164,989	13,635,792
Debt service			
Principal		6,120,825	
Interest		3,679,272	
Total debt service	9,837,382	9,800,097	37,285
Other long-term obligation service	2,750,000	2,726,576	23,424
Total Expenses	62,850,826	47,367,836	15,482,990
Revenues over (under) expenses	(17,374,543)	1,808,089	19,182,632
Other Financing Sources:			
Proceeds from long-term obligations			-
Use of available funds	17,374,543	-	(17,374,543)
	17,374,543	-	(17,374,543)
Revenues and other financing sources over (under) expenditures and other financing uses	$ -	$ 1,808,089	$ 1,808,089

Schedule of Revenues and Expenditures
Budget to Actual (Non-GAAP)
For the Year Ended June 30, 2021 (continued)

	Actual
Reconciliation from budgetary basis (modified accrual) to full accrual:	
Revenues and other financing sources over (under) expenditures and other financing uses	$ 1,808,089
Reconciling items:	
Unamortized discount recognized in interest expense	568,194
Debt principal payments	6,120,825
Other long term obligation payment	2,648,769
Capital project transfers	18,875,778
Change in allowance for doubtful accounts	(592,164)
Change in compensated absences	37,809
Change in health insurance IBNR	(302,877)
Change in other post-employment insurance OPEB	-
Deferred outflows of resources for contributions made in current fiscal year:	
Pension plan	922,750
OPEB plan	256,360
Pension expense	(1,045,440)
OPEB expense	(354,236)
Contributed assets	7,558,647
Special item - Cane Creek Water and Sewer District asset contribution from Henderson County	19,936,419
Depreciation	(12,394,875)
Gain (loss) on disposal of surplus property	(2,776,426)
Total reconciling items	39,459,533
Change in net position	$ 41,267,622

Combining Schedule of Net Position, All Funds (Non-GAAP)
As of June 30, 2021

	Enterprise Acccount	Capital Reserve Account	Bond Service Account
Assets:			
Current assets:			
Cash and cash equivalents	$ 52,997,220	$ -	$ -
Investments	13,478,323		
Restricted cash and cash equivalents	-	-	7,482,433
Receivables (net):			
Accounts	6,835,102	-	-
Sales tax	315,584	-	-
Employee	19,480	-	-
Interest		-	-
Inventories	457,028	-	-
Prepaid expenses	2,500	-	-
Total current assets	74,105,237	-	7,482,433
Noncurrent assets:			
Restricted cash and cash equivalents	-	1,026,733	-
Capital assets:			
Land	-	-	-
Easements	-	-	-
Plant and equipment	-	-	-
Construction in progress	-	-	-
Less accumulated depreciation	-	-	-
Total property and equipment	-	-	-
Total noncurrent assets	-	1,026,733	-
Total assets	74,105,237	1,026,733	7,482,433
Deferred outflow of resources:	2,613,017	-	-

Combining Schedule of Net Position, All Funds (Non-GAAP)
As of June 30, 2021 (continued)

Construction Account	General Account	Capital Account	Total
$ 1,863,398	$ 3,986	170,620	$ 55,035,224
473,902	1,014	43,392	13,996,631
-		-	7,482,433
-	-		6,835,102
144,036	-	8,192	467,812
-	-	-	19,480
-		-	-
-	-	-	457,028
-	-	-	2,500
2,481,336	5,000	222,204	84,296,210
-	-	-	1,026,733
-	-	2,773,980	2,773,980
-	-	11,117,028	11,117,028
-	-	672,869,563	672,869,563
-	-	20,770,543	20,770,543
-	-	(210,948,214)	(210,948,214)
-	-	496,582,900	496,582,900
-	-	496,582,900	497,609,633
2,481,336	5,000	496,805,104	581,905,843
642,030	-	4,419,734	7,674,781

Combining Schedule of Net Position, All Funds (Non-GAAP)
As of June 30, 2021 (continued)

	Enterprise Account	Capital Reserve Account	Bond Service Account
Liabilities			
Current liabilities:			
Payments from current assets:			
Accounts payable and accrued expenses	2,020,810	-	-
Current portion of compensated absences payable	60,000	-	-
Payments from restricted cash and cash equivalents:			
Bond interest payable	-	-	1,492,202
Current portion of long-term obligation	-	-	-
Total current liabilities	2,080,810	-	1,492,202
Noncurrent liabilities:			
Compensated absences, net of current portion	827,292	-	-
Other post-employment benefits	3,674,000	-	-
Net pension liability	3,005,425	-	-
Derivative liability	-	-	-
Long-term obligations, net of current maturities	-	-	-
Total noncurrent liabilities	7,506,717	-	-
Total liabilities	9,587,527	-	1,492,202
Deferred inflows of resources	258,194	-	-
Net position	$ 66,872,533	$ 1,026,733	$ 5,990,231

Combining Schedule of Net Position, All Funds (Non-GAAP)
As of June 30, 2021 (continued)

Construction Account	General Account	Capital Account	Total
1,849,592	3,900	89,551	3,963,853
-	-	-	60,000
-	-	-	1,492,202
-	-	6,120,825	6,120,825
1,849,592	3,900	6,210,376	11,636,880
-	-	-	827,292
-	-	-	3,674,000
1,167,979	-	-	4,173,404
-	-	3,018,824	3,018,824
-	-	92,241,084	92,241,084
1,167,979	-	95,259,908	103,934,604
3,017,571	3,900	101,470,284	115,571,484
4,607	-	-	262,801
$ 101,188	$ 1,100	$ 399,754,554	$ 473,746,339

Combining Schedule of Revenues, Expenses, and Changes in Net Position, All Funds (Non-GAAP)
For the Year Ended June 30, 2021

	Enterprise Account	Capital Reserve Account
Operating revenues:		
Sewer charges (refunds)	$ 38,591,901	$ -
Facility and tap fees	-	-
Miscellaneous	1,705,218	-
Total operating revenues	40,297,119	-
Operating expenses:		
Operations	16,214,088	-
Depreciation	-	-
Total operating expenses	16,214,088	-
Operating income (loss)	24,083,031	-
Nonoperating revenues (expenses):		
Investment income	28,408	193
Interest expense	-	-
Bond issuance costs	-	-
Gain (Loss) on disposal of surplus property	180,435	-
Miscellaneous expense	-	-
Total nonoperating revenues (expenses)	208,843	193
Income (loss) before other transactions	24,291,874	193
Capital contribution	-	-
Special item - Cane Creek Water and Sewer District asset contribution from Henderson County	1,826,863	-
Operating transfers	(22,886,599)	16,500
Purchase of and transfer capital assets	(757,604)	-
Payment of debt and other long-term obligation:		
Principal	-	-
Other long-term obligation	-	-
Change in net position	2,474,534	16,693
Total net position, beginning of year	64,397,999	1,010,040
Total net position, end of year	$ 66,872,533	$ 1,026,733

Combining Schedule of Revenues, Expenses, and Changes in Net Position, All Funds (Non-GAAP)

For the Year Ended June 30, 2021 (continued)

Bond Service Account	Construction Account	General Account	Capital Account	Total
$ -	$ -	$ -	$ -	$ 38,591,901
-	-	5,092,060	-	5,092,060
-	245	64,559	-	1,770,022
-	245	5,156,619	-	45,453,983
77,807	133,507	-	104,015	16,529,417
-	-	-	12,394,875	12,394,875
77,807	133,507	-	12,498,890	28,924,292
(77,807)	(133,262)	5,156,619	(12,498,890)	16,529,691
25	1,170	591	195	30,582
(3,110,487)	-	-	-	(3,110,487)
-	-	-	-	-
-	3,099,196	-	(2,956,861)	322,770
-	-	-	-	-
(3,110,462)	3,100,366	591	(2,956,666)	(2,757,135)
(3,188,269)	2,967,104	5,157,210	(15,455,556)	13,772,556
-	-	7,558,647	-	7,558,647
(21,778)	-	-	18,131,334	19,936,419
11,967,330	15,290,685	(5,156,110)	768,194	-
-	(18,377,093)	(7,558,647)	26,693,344	-
(5,855,825)	-	-	5,855,825	-
(2,648,769)	-	-	2,648,769	-
252,689	(119,304)	1,100	38,641,910	41,267,622
5,737,542	220,492	-	361,112,644	432,478,717
$ 5,990,231	$ 101,188	$ 1,100	$ 399,754,554	$ 473,746,339

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements

The Board of Directors
Metropolitan Sewerage District of Buncombe County, North Carolina
Asheville, 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 financial statements of Metropolitan Sewerage District of Buncombe County, North Carolina (the "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, and have issued our report thereon dated October 29, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement. 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 that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Cherry Bekaert LLP

Charlotte, North Carolina
October 29, 2021