REVIEWED
By SLGFD at 11:41 am, Nov 02, 2021

Martin County Regional Water and Sewer Authority

FINANCIAL STATEMENTS

June 30, 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Martin County Regional Water and Sewer Authority
Williamston, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the Martin County Regional Water and Sewer Authority, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Martin County Regional Water and Sewer Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Martin County Regional Water and Sewer Authority as of June 30, 2021, and the respective changes in financial position and cash flows, where applicable, thereof 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 on pages 4-8 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 consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The budgetary schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and

other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary schedule 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 25, 2021 on our consideration of Martin County Regional Water and Sewer Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the 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 Martin County Regional Water and Sewer Authority'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 Martin County Regional Water and Sewer Authority's internal control over financial reporting and compliance.

Cauley Riggs & Ingram, L.L.C.

New Bern, North Carolina
October 25, 2021

As management of the Martin County Regional Water and Sewer Authority, "the Authority", we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the fiscal year by $6,742,786 (net position).
- The government's total net position decreased by $702,571, due to a decrease in operating revenues, a decrease in investment earnings, and a decrease in operating expenses.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of three components: 1) the MD&A, 2) fund financial statements, and 3) notes to the financial statements. Because the Authority is a special-purpose government engaged in business-type activities only, the financial statements are presented in accordance with paragraph 138 of GASB Statement 34. In addition to the financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Authority.

Overview of the Authority

The Martin County Regional Water and Sewer Authority's primary mission is to provide a sustainable water source to all Martin County residents. The Authority was formed in December 2007 under Section 162A-3.1 of the North Carolina Water and Sewer Authority Act. The organizing political subdivisions were the Town of Williamston and Martin County. The Authority's operations are funded from these subdivisions.

Basic Financial Statements

The financial statements are presented on the fund basis. The fund financial statements provide a more detailed look at the Authority's most significant activities by focusing on the individual activities of the major fund. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance related legal requirements, such as General Statutes and the Authority's budget ordinance. All of the Authority's activities and operations are reported in the proprietary category.

The Authority adopts an annual budget as required by the General Statute. The budget is a legally adopted document that incorporates input from the citizens of the Martin County, the management of the Authority, and the decisions of the Board about which services to provide and how to pay for them. The budgetary statement demonstrates how well the Authority complied with the budget ordinance and whether or not the Authority succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the board; 3) the actual resources and charges; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the full accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds. The Authority uses enterprise funds to account for its water and sewer activity.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided financial statements.

Government-Wide Financial Analysis

Martin County Regional Water and Sewer Authority's Net Position
Business-type Activities

June 30,	2021	2020
Current assets	$ 2,228,303	$ 2,208,048
Capital assets	21,314,281	22,375,440
Total assets	23,542,584	24,583,488
Current liabilities	322,139	338,342
Long-term liabilities	16,477,659	16,799,789
Total liabilities	16,799,798	17,138,131
Net position:		
Net investment in capital assets	4,514,492	5,262,521
Unrestricted	2,228,294	2,182,836
Total net position	$ 6,742,786	$ 7,445,357

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Authority exceeded liabilities by $6,742,786 as of June 30, 2021. The Authority's net position decreased by $702,571 for the fiscal year ended June 30, 2021. However, the largest portion (66.95%) of net position reflects the Authority's net investment in capital assets (e.g. land, buildings, infrastructure, machinery, and equipment). The Authority uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Authority's net 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, since the capital assets cannot be used to liquidate these liabilities. The remaining balance of $2,228,294 is unrestricted.

Several aspects of the Authority's financial operations influenced its net position components:

- Decrease in operating revenues
- Decrease in investment earnings
- Decrease in operating expenses

Martin County Regional Water and Sewer Authority's Changes in Net Position
Business-type Activities

Years ended June 30,	2021	2020
REVENUES		
Operating revenues:		
Charges for services	$ 1,780,288	$ 1,785,107
Total revenues	1,780,288	1,785,107
EXPENSES		
Administration	54,020	36,272
Operations	873,703	944,019
Depreciation	1,072,048	1,069,749
Total expenses	1,999,771	2,050,040
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	227	19,413
Interest expense	(483,315)	(491,509)
Total nonoperating revenues (expenses)	(483,088)	(472,096)
Increase (decrease) in net position	(702,571)	(737,029)
Net position, July 1	7,445,357	8,182,386
Net position, June 30	$ 6,742,786	$ 7,445,357

Budgetary Highlights

During the fiscal year, the Authority revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

During the year ended June 30, 2021, the Authority amended its budget on various occasions due to higher than expected operating costs.

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets for its business–type activities as of June 30, 2021, totals $21,314,281.

Major capital asset transactions during the year include the following:

- Purchase of various equipment for the treatment plant

Martin County Regional Water and Sewer Authority's Capital Assets
(net of depreciation)

June 30,	2021	2020
Land	$ 356,810	$ 356,810
Buildings and systems	20,896,672	21,962,513
Equipment	60,799	56,117
Total	$ 21,314,281	$ 22,375,440

Long-term Debt. As of June 30, 2021, the Authority had total debt outstanding of $16,799,789. Of this, $281,820 is debt backed by the full faith and credit of the Authority. The remainder of the Authority's debt represents bonds secured solely by specified revenue sources.

Martin County Regional Water and Sewer Authority's Debt
Business-type Activities

June 30,	2021	2020
Direct placement installment purchase	$ 281,820	$ 301,950
Revenue bonds	16,517,969	16,810,969
Total debt outstanding	$ 16,799,789	$ 17,112,919

Budget Highlights for the Fiscal Year Ending June 30, 2022

For fiscal year ending June 30, 2022, the unit cost decreased to $5.65 per 1,000 gallons billed for the fiscal year.

Requests for Information

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, Martin County, Post Office Box 668, Williamston, NC 27892 or telephone at (252) 789-4330.

Martin County Regional Water and Sewer Authority
Statement of Net Position
Proprietary Fund
Exhibit 1

June 30,	2021
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,329,956
Receivables (net)	99,283
Restricted investments	799,064
Total current assets	2,228,303
Capital assets:	
Land	356,810
Other capital assets, net of depreciation	20,957,471
Total capital assets	21,314,281
Total assets	23,542,584
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	9
Current portion of long-term liabilities	322,130
Total current liabilities	322,139
Long-term liabilities:	
Due in more than one year	16,477,659
Total liabilities	16,799,798
NET POSITION	
Net investment in capital assets	4,514,492
Unrestricted	2,228,294
Total net position	$ 6,742,786

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

Martin County Regional Water and Sewer Authority
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
Exhibit 2

For the Year Ended June 30,	2021
OPERATING REVENUES	
Charges for services	$ 1,780,288
Total operating revenues	1,780,288
OPERATING EXPENSES	
Administration	54,020
Operations	873,703
Depreciation	1,072,048
Total operating expenses	1,999,771
Operating loss	(219,483)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	227
Interest and other charges	(483,315)
Total nonoperating revenues (expenses)	(483,088)
Change in net position	(702,571)
Total net position - beginning	7,445,357
Total net position - ending	$ 6,742,786

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

Martin County Regional Water and Sewer Authority
Statement of Cash Flows
Proprietary Funds
Exhibit 3

For the Year Ended June 30,		2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	$	1,681,005
Cash paid for goods and services		(952,926)
Net cash provided by operating activities		728,079
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets		(10,889)
Principal paid on long term debt		(313,130)
Interest paid on long-term debt		(483,315)
Net cash used by capital and related financing activities		(807,334)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments		(152)
Interest earned		227
Net cash provided by investing activities		75
Net decrease in cash and cash equivalents		(79,180)
Cash and cash equivalents - beginning		1,409,136
Cash and cash equivalents- ending	$	1,329,956
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$	(219,483)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation		1,072,048
Change in assets and liabilities:		
(Increase) decrease in accounts receivable		(99,283)
Increase (decrease) in accounts payable and accrued liabilities		(25,203)
Net cash provided by operating activities	$	728,079

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

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Martin County Regional Water and Sewer Authority (the "Authority") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Martin County Regional Water and Sewer Authority was established in 2007 by Martin County and the Town of Williamston as a water and sewer management authority whose purpose is to provide water management services for the area. The Authority is governed by a six-member board. As required by generally accepted accounting principles, these financial statements present the financial information of the Authority.

B. Basis of Presentation

The statement of net position and the statement of revenues, expenses, and changes in net position display information about the primary government. These statements include the financial activities of the Authority. These statements present the *business-type activities* of the Authority, which has no governmental operations. Proprietary funds are financed in whole or in part by fees charged to external parties.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

The Authority reports the following major proprietary fund:

Operating Fund. This fund is used to account for the Authority's water and sewer management operations.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, the operating fund of the Authority is maintained during the year using the modified accrual basis of accounting.

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations.

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are charges for services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Data

The Authority's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for all capital projects. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than $2,500. All amendments must be approved by the governing board. During the year, amendments to the original budget were recorded. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Authority's investments are generally reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund is measured at fair value. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

Under GASB Codification 150: *Investments,* if a participant has an investment in a qualifying external investment pool that measures for financial reporting purposes all of its investment at amortized cost it should disclose the presence of any limitations or restrictions on withdrawals (such as redemption notice periods, maximum transaction amounts, and the qualifying external investment pool's authority to impose liquidity fees or redemption gates) in notes to the financial statements. As of June 30, 2021, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit the Authority's access to 100 percent of their account value in the external investment pool.

3. Restricted Assets

The debt service reserve fund as required by the revenue bond covenants is classified as restricted assets (restricted investments) because their use is restricted for future debt service.

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. The Authority has a capitalization policy of $5,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Buildings and systems	50 years
Equipment	10 years

5. Long-Term Obligations

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

6. Net Position

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

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Accounting Standards Issued But Not Yet Effective

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Authority is currently reviewing this statement to determine the effect on the Authority's financial statements. With the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* the effective date of this statement has been postponed by 18 months.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The Authority is currently reviewing this statement to determine the effect on the Authority's financial statements. With the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance,* the effective date of this statement has been extended by one year.

In January 2020, the GASB issued GASB Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Accounting Standards Issued But Not Yet Effective (continued)

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, Leases, for interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Accounting Standards Issued But Not Yet Effective (continued)

Earlier application is encouraged and is permitted by topic. The Authority is currently reviewing this statement to determine the effect on the Authority's financial statements. With the issuance of *GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance*, the effective date of this statement has been extended by one year.

In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 84, *Fiduciary Activities*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities.
- The effective dates of the following pronouncements are postponed by 18 months:
- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*.

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued. The requirements of this Statement are effective immediately.

NOTE II – DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

At June 30, 2021, the Authority's deposits had a carrying amount of $1,329,956 and a bank balance of $1,329,956. Of the bank balances, $250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method.

NOTE II – DETAIL NOTES ON ALL FUNDS (continued)

2. Investments

At June 30, 2021, the Authority had the following investments and maturities:

Investment Type	Valuation Method	Book Value at 6/30/2021	Maturity	Rating
NC Capital Management Trust - Government Portfolio	Fair Value - Level I	$ 799,064	N/A	AAAm

The Authority has no policy regarding interest rate and credit risk.

3. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	$ 356,810	$ -	$ -	$ 356,810
Capital assets being depreciated:				
Buildings and systems	26,604,937	-	-	26,604,937
Equipment	67,609	10,889	-	78,498
Total capital assets being depreciated	26,672,546	10,889	-	26,683,435
Less accumulated depreciation:				
Buildings and systems	4,642,424	1,065,841	-	5,708,265
Equipment	11,492	6,207	-	17,699
Total accumulated depreciation	4,653,916	1,072,048	-	5,725,964
Total capital assets being depreciated, net	22,018,630			20,957,471
	$ 22,375,440			$ 21,314,281

NOTE II – DETAIL NOTES ON ALL FUNDS

B. Liabilities

1. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority participates in two self-funded risk financing pools administered by the Risk Management Agency of the North Carolina Association of County Commissioners. Through these pools, the Authority obtains general liability and auto liability coverage of $2 million per occurrence, and property coverage up to the total insured values of the property policy. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions selected by the Board of Trustees each year. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Authority upon request.

The Authority carries no flood insurance.

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

2. Long-term Obligations

a. Installment Purchase

In December 2013, the Authority entered into a $2,013,000 direct placement installment agreement to partially finance the treatment plant construction project. The treatment plant is pledged as collateral for the debt while the debt is outstanding. The financing contract accrues interest at 0%, immediately forgives $1,610,400 of the unpaid principal, and requires twenty annual installment payments of $20,130, beginning May 1, 2016. The outstanding balance at June 30, 2021 was $281,820.

NOTE II – DETAIL NOTES ON ALL FUNDS

2. Long-term Obligations (continued)

Annual debt service payments of the installment purchase as of June 30, 2021 as follows:

	Business-type Activities	
Year Ending June 30	**Principal**	**Interest**
2022	$ 20,130	$ -
2023	20,130	-
2024	20,130	-
2025	20,130	-
2026	20,130	-
2027-2031	100,650	-
2032-2036	80,520	-
Total	$ 281,820	$ -

b. Revenue Bond

The Authority issued $18,170,000 Water and Sewer System Revenue Bonds, Series 2015 on August 27, 2015 for the construction of a water treatment plant. Principal installments are due annually on June 1 at an annual interest of 2.875%.

The future payments of the revenue bond are as follows:

Year Ending June 30	**Principal**	**Interest**
2022	$ 302,000	$ 474,891
2023	311,000	466,209
2024	319,000	457,268
2025	329,000	448,097
2026	339,000	438,638
2027-2031	1,843,000	2,041,504
2032-2036	2,123,000	1,760,962
2037-2041	2,447,000	1,437,583
2042-2046	2,819,000	1,065,069
2047-2051	3,253,000	635,630
2052-2056	2,432,969	159,157
Total	$ 16,517,969	$ 9,385,008

NOTE II – DETAIL NOTES ON ALL FUNDS

2. Long-term Obligations (continued)

The Authority is in compliance with the covenants as to rates, fees, rentals and charges in Section 5.01 of the Bond Order, authorizing the issuance of the Water and Sewer Revenue Bond, Series 2015. Section 5.01(b) of the Bond Order requires the debt service coverage ratio to be no less than 110% for the first ten years of the debt, such that the appropriate amount is set aside until one average annual installment is accumulated in the debt service reserve fund. Net revenues should always be no less than 100% such that the Authority can meet all system operating and maintenance expenses and their debt service requirements on each loan. As the Authority has one annual installment set aside in the debt service reserve fund, it is subject to the 100% debt service coverage ratio. The debt service coverage ratio calculation for the year ended June 30, 2021 is as follows:

Operating revenues	$ 1,780,288
Operating expenses *	927,723
Operating income	852,565
Nonoperating revenues	227
Income available for debt service	852,792
Debt service, principal and interest paid	$ 796,445
Debt service coverage ratio	107.07%

* Per rate covenants, this does not include depreciation expense of $1,072,048.

c. Changes in Long-term Obligations

Long-term debt activity for the year ended June 30, 2021 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Current Portion of Balance
Business-type activities:					
Direct placement installment purchase	$ 301,950	$ -	$ 20,130	$ 281,820	$ 20,130
Revenue bonds	16,810,969	-	293,000	16,517,969	302,000
Total long-term liabilities	$ 17,112,919	$ -	$ 313,130	$ 16,799,789	$ 322,130

NOTE III – SUBSEQUENT EVENTS

Management evaluated all events and transactions that occurred through October 25, 2021, the date the Authority's financial statements were available to be issued.

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, certain operations of the Authority have been affected. Continued effects of the pandemic may result in uncertainties and a negative impact on operating activities and results of the Authority. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

Martin County Regional Water and Sewer Authority
Schedule of Revenues and Expenditures-
Budget and Actual (Non-GAAP)
Operating Fund
Schedule 1

For the Year Ended June 30, 2021	Original Budget	Final Budget	Actual	Variance
REVENUES				
Operating revenues:				
Charges for services	$ 1,780,130	$ 1,780,130	$ 1,780,288	$ 158
Nonoperating revenues:				
Investment earnings	-	-	227	227
Total revenues	1,780,130	1,780,130	1,780,515	385
EXPENDITURES				
Administration:				
Insurance			28,293	
Miscellaneous			566	
Office supplies			283	
Permitting			1,975	
Postage			122	
Professional fees			22,781	
Total administation	41,050	57,618	54,020	3,598
Water treatment plant operations:				
Contracted services			810,313	
Total water treatment plant operations	851,747	851,747	810,313	41,434
Booster pump station operations:				
Lease fees			63,135	
Permitting			255	
Total booster pump station operations	65,735	65,035	63,390	1,645

Martin County Regional Water and Sewer Authority
Schedule of Revenues and Expenditures-
Budget and Actual (Non-GAAP)
Operating Fund
Schedule 1

For the Year Ended June 30, 2021	Original Budget	Final Budget	Actual	Variance
Debt service:				
Principal			313,130	
Interest			483,315	
Total debt service	811,598	811,580	796,445	15,135
Capital outlay	10,000	10,900	10,899	1
Total expenditures	1,780,130	1,796,880	1,735,067	61,813
Appropriated fund balance	-	16,750	-	(16,750)
Revenues over (under) expenditures	$ -	$ -	$ 45,448	$ 45,448

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

Revenues and other sources under expenditures and other uses	$ 45,448
Reconciling items:	
Capital outlay	10,899
Principal retirement	313,130
Depreciation	(1,072,048)
Change in net position	$ (702,571)

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

To the Board of Directors
Martin County Regional Water and Sewer Authority
Williamston, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Martin County Regional Water and Sewer Authority as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Martin County Regional Water and Sewer Authority's basic financial statements, and have issued our report thereon dated October 25, 2021.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Martin County Regional Water and Sewer Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Martin County Regional Water and Sewer Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Martin County Regional Water and Sewer Authority's internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Martin County Regional Water and Sewer Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

Carr, Riggs & Ingram, L.L.C.

New Bern, North Carolina
October 25, 2021