

**REVIEWED**

*By SLGFD at 11:32 am, Nov 02, 2021*

# **NEUSE REGIONAL WATER AND SEWER AUTHORITY**

## **FINANCIAL REPORT**

**JUNE 30, 2021**



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ASSURANCE, TAX & ADVISORY SERVICES



# NEUSE REGIONAL WATER AND SEWER AUTHORITY

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# NEUSE REGIONAL WATER AND SEWER AUTHORITY

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## **FINANCIAL SECTION**



## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Chairman and  
Members of the Board of Directors  
Neuse Regional Water and Sewer Authority

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

We have audited the accompanying financial statements of Neuse Regional Water and Sewer Authority (the Authority) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the 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.

### **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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2021, and the changes in its 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 on pages 4-9 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 Neuse Regional Water and Sewer Authority's basic financial statements. The accompanying schedules of revenues and expenditures, budget and actual are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The schedules of revenue and expenditures, budget and actual are the responsibility of management and were 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 schedules of revenue and expenditures, budget and actual are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2021 on our consideration of the 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 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 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 the Authority's internal control over financial reporting and compliance.

*PBMares, LLP*

Morehead City, North Carolina  
October 13, 2021



**NEUSE REGIONAL WATER AND SEWER AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2021**  
**(Unaudited)**

As management of Neuse 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.

**Financial Highlights**

- The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$41,575,082 (net position).
- The Authority's total net position increased by \$748,751.
- The Authority operated within its budget, with no expenditures exceeding their budgeted amounts.
- The Authority had operating income of \$3,383,458.
- Total long-term debt and member obligation outstanding as of June 30, 2021 totaled \$72,362,368.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The financial statements and schedules of the Authority consist of four components. They are as follows:

- Management's Discussion and Analysis
- Basic Financial Statements
- Notes to the Financial Statements
- Supplementary Financial Information

The Basic Financial Statements are prepared using the accrual basis of accounting. They consist of three statements, as required for utilities engaged only in business-type activities. The first statement is the statement of net position. Assets and liabilities are classified between current and long-term. This statement provides a summary of the Authority's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

The next statement is the statement of revenue, expenses and changes in fund net position. This statement is used in evaluating whether the Authority has recovered all of its costs through revenues. Its information is used in determining credit worthiness.

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

The notes to the financial statements provide more detailed information and should be read in conjunction with the statements. After the Notes, supplementary financial information is provided to show additional details about the Authority's budgetary information.

(Continued)

## Financial Analysis

A discussion of the year's major financial developments follows.

Net position may serve over time as one useful indicator of a government's fiscal health. Investment in capital assets, net of related debt, is \$28,078,270, which comprises vehicles, equipment, plant and transmission system, construction in progress and land less the balances of debt incurred in the acquisition of those capital assets. This is the main concentration of the Authority's net position as of June 30, 2021. The restricted net position is restricted due to the Authority's debt agreements with United States Department of Agriculture (USDA). Unrestricted net position has no restriction to its use.

### Condensed Statement of Net Position

Figure 1

	June 30,	
	2021	2020
Current and other assets	\$ 15,522,436	\$ 16,047,722
Capital assets	99,062,159	100,130,705
Costs to be recovered	104,048	107,878
<b>Total assets</b>	<b>114,688,643</b>	<b>116,286,305</b>
Current liabilities	3,367,662	3,445,357
Noncurrent liabilities	69,745,899	72,014,617
<b>Total liabilities</b>	<b>73,113,561</b>	<b>75,459,974</b>
Net position:		
Net investment in capital assets	28,078,270	26,766,774
Restricted	3,832,700	3,832,700
Unrestricted	9,664,112	10,226,857
<b>Total net position</b>	<b>\$ 41,575,082</b>	<b>\$ 40,826,331</b>

A comparison of the statement of net position to the prior year shows an increase in net position by \$748,751, resulting primarily from repayment of debt. Total assets decreased by \$1,597,662 and liabilities decreased by \$2,349,413, from the prior year. The statement of revenue, expenses and changes in net position for the current year shows that operating revenue more than covers operating expenses.

(Continued)

## Condensed Statement of Revenues, Expenses and Change in Net Position

Figure 2

	June 30,	
	2021	2020
Revenues:		
Operating revenues:		
Water	\$ 10,282,800	\$ 10,282,800
General revenues:		
Investment earnings, unassigned	43,261	222,033
Golden Leaf grant	-	1,300,000
Miscellaneous, unassigned	288,227	181,275
<b>Total revenues</b>	<b>10,614,288</b>	<b>11,986,108</b>
Expenses (water):		
Personnel services	1,620,028	1,564,169
Contractual services	689,841	1,023,910
Operating supplies	553,478	501,328
Depreciation and amortization expense	3,446,651	3,443,828
Interest expense	2,612,148	2,768,247
Other expenses	877,571	965,917
<b>Total expenses</b>	<b>9,799,717</b>	<b>10,267,399</b>
<b>Income before accretion of member obligation</b>	<b>814,571</b>	<b>1,718,709</b>
Accretion of member obligation	(65,820)	(63,165)
<b>Increase in net position</b>	<b>748,751</b>	<b>1,655,544</b>
Net position, July 1	40,826,331	39,170,787
<b>Net position, June 30</b>	<b>\$ 41,575,082</b>	<b>\$ 40,826,331</b>

The Authority earned \$3,383,458 from its operations and \$43,261 from interest earned on investments. The Authority's expenses decreased by \$467,682 from the prior year. Interest expense on the debt related to the plant and water transmission system was \$2,612,148. Depreciation and amortization expense recorded on the plant and water transmission system during the year ended June 30, 2021 was \$3,446,651.

(Continued)

**Capital Assets.** Capital construction expenditures incurred for the Raw Water Intake Modification capital project were \$2,344,767 for the year ended June 30, 2021. See Note 3 in the financial statements for additional information.

**Long-Term Debt.** The Authority was awarded a state revolving fund loan by the North Carolina Department of Environmental and Natural Resources (DENR) in January of 2005. The purpose of this loan was to help fund the design and engineering costs for the water treatment plant and the water transmission lines. Principal payments of \$1,337,100 were made in the 2021 fiscal year. The amount outstanding as of June 30, 2021 was \$9,359,700.

In September 2019, the North Carolina Local Government Commission approved the Authority to receive a revolving loan for 20 years in the amount of \$1,220,000 at a rate of 1.48% per annum. The purpose of this loan is to provide funds for expenditures relating to the Raw Water Modifications project, with procurement under this loan agreement. The loan has been paid to the Authority on a reimbursement basis and as of June 30, 2021, the Authority has received \$1,165,019, with a remaining balance of \$54,981, which represents 5% of the last reimbursement request. This remaining balance will be reimbursed once the project is completed. The repayment of this loan began on May 1<sup>st</sup> of 2021. Principal payments of \$61,000 were made in the 2021 fiscal year. The amount outstanding as of June 30, 2021 was \$1,104,019.

During the fiscal year ended June 30, 2021, the U.S. Department of Agriculture (USDA), through its Rural Utilities Service, made grant funds of \$25,858,463 and loan funding of \$70,750,000, totaling \$96,608,463, available to the Authority for the construction of the water treatment facility and the distribution lines system. In 2009, bonds were issued to retire bond anticipation notes that had been previously issued to fund this project. The USDA purchased the entire bond issuance. Principal payments of \$1,167,736 were made in the 2021 fiscal year. The amount outstanding as of June 30, 2021 was \$60,267,123.

Eastern Pines Water Corporation (EPWC) entered into a loan agreement on June 26, 2007 with the USDA to borrow \$6,000,000 to be paid in annual payments over a 40-year period with the first two years of interest only payments by EPWC. The loan proceeds were given to the Authority as EPWC's buy-in obligation to become a member of the Authority, which was recorded as member contribution revenue. EPWC agreed to make twenty annual payments including interest beginning June 26, 2008 on their USDA loan with any remaining balance due USDA to be assumed by the Authority at the end of the 20-year term. The above capital contribution agreement further stated that the amount to be assumed by the Authority would be calculated as if EPWC had received a State Revolving Fund (SRF) loan which has rates significantly lower than USDA loan rates, thus the Authority will be obligated to assume the outstanding USDA debt up to \$2,176,615 at June 26, 2027, with the first payment being due on June 26, 2028. The net present value of this obligation as of June 30, 2021 is \$1,631,526.

### Long-Term Debt

Figure 3

	June 30,	
	2021	2020
DENR State Revolving Fund loans	\$ 10,463,719	\$ 11,518,888
Revenue Bonds	60,267,123	61,434,859
Long-term member obligation	1,631,526	1,565,706
<b>Total</b>	<b>\$ 72,362,368</b>	<b>\$ 74,519,453</b>

See Note 4 for more information on these loans.

(Continued)

## Economic Factors

The Authority serves customers in Lenoir and southern Pitt Counties. These counties are part of the North Carolina Eastern Regional Partnership (NCEast Alliance) which represents thirteen counties and over 1,441,000 people, comparable to the metropolitan statistical area of Fresno, California. Lenoir and Pitt Counties each have an airport, hospital and a community college. Vidant Medical Center, located in Greenville, North Carolina, is the largest employer of these two counties. Lenoir County is the home of the North Carolina Global TransPark (GTP), a state-of-the-art air cargo facility. The NC GTP Region is designated as a Foreign Trade Zone, which provides a competitive advantage to employers located there.

A summary of demographic and economic information follows:

	Service Area		
	Lenoir County	Pitt County	North Carolina
Population, 2021 estimate	56,756	178,433	10,488,084
Population, percent change	0.8%	0.6%	10.0%
Unemployment rate 2021	5.7%	6.2%	5.7%
Per capita personal income (2021)	\$ 41,752	\$ 43,325	\$ 30,783
Median value of owner-occupied housing units	\$ 95,500	\$ 148,600	\$ 172,500

## Budgetary Highlights for the Fiscal Year Ending June 30, 2022

- The minimum water purchase requirement is based on 75% of each member's full water requirements during the 2002 year except for Eastern Pines Water Corporation's water purchase which is based on 80% of their 2002 full water requirements. The members operate under a take-or-pay arrangement which specifies a minimum payment whether they receive any water or not, as well as any additional purchases above the minimum. The water rate for the Member Entities will remain at the rate of \$4.00 per 1,000 gallons. The sale of water is expected to generate \$10,282,800 in revenues, as there is no expectation of additional purchases during the year by any of the members.
- The remaining revenues will come from an estimated \$50,000 of projected miscellaneous income through investments, \$15,000 from Sales Tax Receivables, and \$130,000 from payment #11 (of 20) from a contribution from Pitt County.
- Operating expenses will remain fairly similar to the prior year with little to no change expected for fiscal year ending June 30, 2022.
- Capital improvement expenditures for the Raw Water Intake #2 capital project is expected to total \$316,900 for fiscal year ending June 30, 2022.
- Capital improvement expenditures for the Raw Water Intake #1 Raise Screens capital project is expected to total \$870,600 for fiscal year ending June 30, 2022.

(Continued)

### **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 Executive Director, Neuse Regional Water and Sewer Authority, 2811 Barrus Road, La Grange, NC 28551.

Harold Herring, Executive Director  
Neuse Regional Water and Sewer Authority  
La Grange, North Carolina

## **BASIC FINANCIAL STATEMENTS**

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## STATEMENT OF NET POSITION June 30, 2021

<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 11,648,484
Accounts receivable	41,252
<b>Total current assets</b>	<u>11,689,736</u>
Noncurrent assets:	
Restricted cash equivalent	<u>3,832,700</u>
Capital assets:	
Capital assets not being depreciated	6,695,366
Capital assets being depreciated, net	92,366,793
<b>Total capital assets</b>	<u>99,062,159</u>
Costs to be recovered	<u>104,048</u>
	<u>99,166,207</u>
<b>Total noncurrent assets</b>	<u>102,998,907</u>
<b>Total assets</b>	<u>114,688,643</u>
<b>LIABILITIES</b>	
Current liabilities:	
Current portion of long term obligations	2,616,469
Accounts payable and accrued expenses - operating	178,339
Retainage payable and capital assets payables	253,047
Accrued interest expense	207,710
Compensated absences payable	112,097
<b>Total current liabilities</b>	<u>3,367,662</u>
Noncurrent liabilities, less current portion:	
Long-term member obligation	1,631,526
Notes payable - State Revolving Fund	8,022,600
Notes payable - State Revolving Loan	1,043,019
Bonds payable - USDA	59,048,754
<b>Total noncurrent liabilities</b>	<u>69,745,899</u>
<b>Total liabilities</b>	<u>73,113,561</u>
Commitments and Contingencies (Notes 4, 5, and 6)	
<b>NET POSITION</b>	
Net investment in capital assets	28,078,270
Restricted for debt service	3,832,700
Unrestricted	<u>9,664,112</u>
<b>Total net position</b>	<u>\$ 41,575,082</u>



## NEUSE REGIONAL WATER AND SEWER AUTHORITY

### STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Year Ended June 30, 2021

Operating revenues:	
Member water charges	\$ 10,282,800
Miscellaneous income	158,227
<b>Total operating revenues</b>	<u>10,441,027</u>
Operating expenses:	
Personnel services	1,620,028
Professional/contractual services	689,841
Operating supplies	553,478
Depreciation and amortization expense	3,446,651
Other operating expense	747,571
<b>Total operating expenses</b>	<u>7,057,569</u>
<b>Operating income</b>	<u>3,383,458</u>
Nonoperating revenue (expense):	
Refund of member initiation fees	(130,000)
Non-member contribution	130,000
Investment earnings	43,261
Interest expense	(2,612,148)
<b>Total nonoperating expense</b>	<u>(2,568,887)</u>
<b>Income before accretion of member obligation</b>	814,571
Accretion of member obligation	(65,820)
<b>Increase in net position</b>	<u>748,751</u>
Net position, beginning	<u>40,826,331</u>
Net position, ending	<u><u>\$ 41,575,082</u></u>

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2021

Cash flows from operating activities:	
Cash received from members	\$ 10,282,800
Other cash received	158,227
Cash payments to suppliers for goods and services	(1,546,641)
Cash payments to employees for services	(1,589,616)
<b>Net cash provided by operating activities</b>	<u>7,304,770</u>
Cash flows from capital and related financing activities:	
Principal payments on note and bonds payable	(2,565,836)
Interest paid on capital debt	(2,674,845)
Non-member contributions	130,000
Refund of member initiation fees	(130,000)
State Revolving Loan Proceeds	342,931
Acquisition and construction of capital assets	(2,374,275)
<b>Net cash used in capital and related financing activities</b>	<u>(7,272,025)</u>
Cash flows provided by investing activities:	
Interest received on investments	<u>43,261</u>
<b>Net increase in cash and cash equivalents</b>	76,006
Cash and cash equivalents:	
Beginning (including \$3,832,700 in restricted cash and cash equivalents)	<u>15,405,178</u>
Ending (including \$3,832,700 in restricted cash and cash equivalents)	<u><u>\$ 15,481,184</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 3,383,458
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	3,446,651
Changes in assets and liabilities:	
Receivables	580,349
Prepaid expenses	20,943
Accounts payable and accrued expenses- operating	(157,043)
Accrued payroll and employee benefits	43,591
Accrued compensated absences	(13,179)
<b>Net cash provided by operating activities</b>	<u><u>\$ 7,304,770</u></u>

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

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### **Note 1. Summary of Significant Accounting Policies**

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

#### **Reporting Entity**

The Authority is a political subdivision of the State of North Carolina (the State) created under Article 5 of General Statute 162A of the State. The Authority was formed to design, construct, and operate a regional water treatment plant and water transmission system for customers (members) in Lenoir and Pitt Counties, North Carolina and the surrounding areas. The authority is governed by a Board of sixteen Directors (Board) who hold office for staggered terms. The Directors are appointed by the governing bodies of the Bell Arthur Water Corporation, City of Kinston, Deep Run Water Corporation, Eastern Pines Water Corporation, North Lenoir Water Corporation, Town of Ayden, Town of Grifton and Town of Pink Hill.

The fiscal year ended June 30, 2021, is the twentieth year of existence for the Authority. In September 2008, the Authority officially commenced operations and began supplying treated water to its members. The U.S. Department of Agriculture (USDA) awarded the Authority \$95.5 million of grant and loan funding to help build the water treatment facility and the distribution system. The Authority was also approved for \$26.7 million low interest loan funding from the State of North Carolina (SRF) for this project.

The Authority has a long-term take or pay all requirements contract with each of its eight members/customers. The terms of the member contracts dictate that each member is jointly and separately liable for the entirety of the Authority's USDA, SRF and SRP debt, which as of June 30, 2021 was \$70,730,842. These contracts are in effect through the life of the USDA revenue bonds outstanding, which terminate during the fiscal year ending June 30, 2048.

GAAP requires that the reporting entity includes (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria have been considered and there are no agencies or entities which should be presented with the Authority. Also, the Authority is not included in any other reporting entity. The Authority is a jointly governed organization, i.e. an entity governed by representatives from several governments and non-profit water distribution cooperatives. The participants do not retain any ongoing financial interest in the Authority.

#### **Basis of Presentation**

All activities of the Authority are accounted for within a single business-type activity and within a single proprietary (enterprise) fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### Measurement Focus and Basis of Accounting

In accordance with the State's General Statutes, the Authority budgets and maintains its accounts during the year using the modified accrual basis of accounting, and thereafter prepares external financial statements in accordance with GAAP as applied to governmental entities.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise activities are accounted for on the flow of economic resources measurement focus and accrual basis of accounting. Under the accrual basis, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives or (receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the Authority are water charges. Water charges to customers are for water sales and services now that the water treatment plant and transmission lines systems are operating. The principal operating expenses for the Authority include personnel costs, professional/contractual services, supplies, depreciation and amortization expenses and other expenses. All revenues and expenses (principally investment income and interest expense) not meeting this definition are reported as nonoperating revenues and expenses.

Under the terms of grant and loan agreements, the Authority funds certain capital expenditures by a combination of specific cost-reimbursement grants and/or loans and operating revenues. Thus, when capital expenditures are incurred, there are both restricted and unrestricted net position available to finance these expenditures. It is the Authority's policy to first apply cost-reimbursement grant and/or loan resources to such expenditures, followed by operating revenues.

#### Budgets

Budgets are adopted utilizing the modified accrual basis of accounting as required by State statute. An annual budget ordinance is adopted for the operating fund (subfund). All annual appropriations lapse at fiscal year-end. A project budget ordinance is adopted for the capital project fund (subfund). Project appropriations lapse at the completion of the project.

Expenditures may not legally exceed appropriations at the fund level for the operating and capital project funds. The budget may be amended as necessary by the governing board. A budget calendar is included in the State's General Statutes which prescribes the last day on which certain steps of the budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed.

April 30	Each department head will transmit to the budget officer the budget requests as estimates for their department for the budget year.
June 1	The budget and the budget message shall be submitted to the Board. The public hearing on the budget should be scheduled at this time.
July 1	The budget ordinance shall be adopted by the Board.

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

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### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **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 equivalents.

All deposits of the Authority are made in Board designated official depositories and are collateralized as required by State Statute G.S. 159-31. Official depositories may be established with any bank or savings and loan 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 deposits.

State Statute 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; 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). Non-participating interest earning contracts are accounted for at cost. In accordance with GASB Statement No. 79, the NCCMT government portfolio, an external investment pool, is measured at fair value which is the NCCMT's share price. The NCCMT term portfolio's securities are measured at amortized cost which approximates fair value.

#### **Restricted Cash Equivalent**

The Authority is required by the USDA to establish and maintain a reserve fund sufficient to assure for payment of loan principal and interest on a timely basis. As such, the debt reserve fund shall provide for at least one average annual loan payment. This reserve fund can be accumulated at the rate of one-tenth of an average annual loan payment each year. The reserve fund at June 30, 2021 totaled \$3,832,700.

#### **Accounts Receivable**

Accounts receivable include grant receivables for which eligibility requirements have been satisfied. Water charges are typically billed and collected in the same period. Management evaluates receivables for collectability by identifying troubled accounts and by applying historical experience. Management has determined that all accounts are fully collectable and no allowance is required.

#### **Costs to be Recovered:**

As a rate setting body, the Authority intends to recover certain costs, including bond issuance costs, through current and future rates over the life of the debt issued.

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

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### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **Capital Assets and Construction in Progress**

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of one year. All purchased capital assets are valued at original cost at the time of acquisition, with cost including net construction period interest. Donated capital assets are valued at their acquisition value on the date received. 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. The Authority's capital assets include a water treatment plant and transmission system, vehicles, certain equipment and land. Construction period interest, net of related interest income, incurred by the Authority during the construction phase of capital assets is included as part of the capitalized value of the assets constructed when applicable.

Depreciation is charged to operations using a straight-line method based on the estimated useful life of an asset. The Authority depreciated its vehicles and equipment using estimated useful lives of five to ten years, and buildings, plant, and transmission assets using useful lives of 40 years.

The Authority may consider capital assets impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstances is outside the normal life cycle of the capital asset. Impaired assets will be appropriately reduced in value or discarded if idle. The Authority owns no significant assets that would be considered impaired.

#### **Compensated Absences**

The Authority's vacation policies provide for the accumulation of up to 30 days earned vacation leave for all employees with such leave being fully vested when earned. An annual adjustment is made at calendar year end to record the liability and expense for earned, unused compensated absences.

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

#### **Long-Term Debt**

Long-term debt is reported as a liability in the statement of net position. Bond issuance costs are reported as a regulatory asset and amortized over the term of the related debt using the straight-line method.

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

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### Note 1. Summary of Significant Accounting Policies (Continued)

#### Net Position

Net position consists of the following components, as applicable:

***Net investment in capital assets:*** This component of net position reflects amounts expended for capital assets, net of related debt. Deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or related debt are also included in this component of net position.

***Restricted net position:*** This component of net position consists of a debt service reserve established to satisfy stipulations from a third party granting and lending agency.

***Unrestricted net position:*** This component of net position consists of net position that do not meet the definition of restricted or net investment in capital assets. This category represents the amounts not restricted for any other project.

#### Water Revenue

The Authority recognizes water revenue as water is delivered and/or service is rendered to the members. The members operate under a take-or-pay arrangement which specifies a minimum payment whether they receive any water or not, as well as any additional purchases above the minimum. Minimum payments are recognized as revenue when received because such payments are non-refundable. There were no additional purchases during the year by any of the members. The minimum water purchase requirement is based on 75% of each member's full water requirements during the 2002 year except for Eastern Pines Water Corporation's water purchase which is based on 80% of their 2002 full water requirements. The rate charged to its members by the Authority is \$4.00 per thousand gallons.

#### Operating and Nonoperating Revenues and Expenses

Nonoperating revenues include investment income and non-member contributions. Nonoperating expenses include interest expenses and the refund of member initiation fees. Investment income is generated from advance contributions for capital needs.

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

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### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **Use of Estimates**

The preparation of financial statements in accordance with GAAP 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. The primary accounting estimates used by the Authority's management having financial significance is the accretion of and the balance of the member obligation valuation and the estimated useful life assigned to the water treatment plant and transmission system.

### **Note 2. Cash and Cash Equivalents**

At June 30, 2021, cash and cash equivalents is comprised of the following:

#### **Deposits**

All the deposits of North Carolina local governments are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage (FDIC) level are separately collateralized with securities held by the Authority's agents in the Authority's name. Under the Pooling Method, which is a statewide collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer of North Carolina's (State Treasurer) 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 agent in their name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Authority under the Pooling Method, the potential exists for under-collateralization. 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.

The Authority has no formal policy regarding the custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all Pooling Method financial institutions and to monitor them for compliance. The Authority complies with the provisions of State Statute G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2021, the carrying amount of the Authority's deposits was \$14,767,844. The bank balance was \$14,858,403 of which \$250,000 was covered by the FDIC. Of the uninsured bank balance, \$14,608,403 was collateralized by the Pooling Method. At June 30, 2021, the Authority's petty cash fund totaled \$115.

On May 24, 2012, the Authority adopted a resolution to set a minimum balance for the available cash reserves in the operating bank account not to go below \$4,000,000. The \$4,000,000 equates to approximately one year of operating expense, excluding debt service and any reserves that the Authority is required to maintain for the USDA. The Authority is in compliance with this resolution for the year ended June 30, 2021.



# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

### Note 2. Cash and Cash Equivalents (Continued)

#### Deposits (Continued)

The Authority's investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable asserts or group of assets. The Authority categorizes investments based on the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*, which are the following:

The Authority's investments are categorized as Level 1. Level 1 securities are valued using directly observable quotes prices in active markets for identical assets. At June 30, 2021, the Authority had \$713,225 invested with the NCCMT's government portfolio which carried a credit rating of AAA by Standard and Poor's. The Authority has no policy regarding credit risk.

### Note 3. Capital Assets

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

	Balance June 30, 2020	Additions	Deletions	Transfers	Balance June 30, 2021
Capital assets not being depreciated:					
Land	\$ 1,377,196	\$ -	\$ -	\$ -	\$ 1,377,196
Construction in progress	2,973,403	2,344,767	-	-	5,318,170
	4,350,599	2,344,767	-	-	6,695,366
Capital assets being depreciated:					
Vehicles	259,390	19,795	-	-	279,185
Equipment	725,650	9,713	-	-	735,363
Plant and transmission system	135,092,492	-	-	-	135,092,492
<b>Total capital assets being depreciated</b>	<b>136,077,532</b>	<b>29,508</b>	<b>-</b>	<b>-</b>	<b>136,107,040</b>
Less accumulated depreciation for:					
Vehicles	(197,767)	(7,575)	-	-	(205,342)
Equipment	(403,784)	(55,988)	-	-	(459,772)
Plant and transmission system	(39,695,875)	(3,379,258)	-	-	(43,075,133)
<b>Total accumulated depreciation</b>	<b>\$ (40,297,426)</b>	<b>\$ (3,442,821)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (43,740,247)</b>
<b>Total capital assets being depreciated, net</b>	<b>95,780,106</b>				<b>92,366,793</b>
<b>Capital assets, net</b>	<b>\$ 100,130,705</b>				<b>\$ 99,062,159</b>

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

### Note 4. Long-Term Obligations

Change in long-term liabilities

	Balance June 30, 2020	Increases	Decreases	Balance June 30, 2021	Current Portion of Balance
Note payable – SRF	\$ 10,696,800	\$ -	\$ 1,337,100	\$ 9,359,700	\$ 1,337,100
Note payable – SRLP	822,088	342,931	61,000	1,104,019	61,000
USDA revenue bonds	61,434,859	-	1,167,736	60,267,123	1,218,369
Long-term member obligation	1,565,706	65,820	-	1,631,526	-
<b>Total long-term liabilities</b>	<b>\$ 74,519,453</b>	<b>\$ 408,751</b>	<b>\$ 2,565,836</b>	<b>\$ 72,362,368</b>	<b>\$ 2,616,469</b>

### Note Payable – State Revolving Fund Loans

The Authority was awarded a SRF loan by the North Carolina Department of Environmental and Natural Resources in January of 2005. The purpose of this loan was to help fund the design cost for the water treatment plant and the water transmission system. The interest rate was 2.205% at commencement of the loan. In May of 2015, the loan was restructured to eliminate all interest payments for the remaining life of the loan. The loan principal is to be paid back in 20 annual payments due in May of each year. The amount outstanding as of June 30, 2021 was \$9,359,700.

In September 2019, the Authority was awarded a \$1,220,000 loan through the North Carolina Department of Environmental Quality – Division of Water Infrastructure’s North Carolina Drinking Water Revolving Loan program. The loan has been paid to the Authority on a reimbursement basis and as of June 30, 2021, the Authority has received \$1,165,019, with a remaining balance of \$54,981 which represents 5% of the last reimbursement request. This remaining balance will be reimbursed once the project is completed. The loan principal is to be paid back in 20 annual payments due in May of each year. The outstanding balance bears interest at a rate of 1.48% per annum. The amount outstanding as of June 30, 2021 was \$1,104,019.

### USDA Revenue Bonds

During the year ended June 30, 2009, the Authority issued Water System Revenue Bonds, which were purchased by the USDA. The interest rates on the Water System Revenue Bonds range from 4.125% to 4.5%. Principal and interest payments are due annually on June 1 of each year. The amount outstanding as of June 30, 2021 was \$60,267,123.

The Water System Revenue Bonds are subject to certain covenants including the establishment of rates and collection of fees for services that are adequate to cover operating expenses and debt service requirements. The Authority received a waiver from the USDA of the revenue covenant for the year ended June 30, 2013 and subsequent years. The Authority will continue to monitor their cash flow needs on an annual basis through their budgeting process. Annual operating and capital project budgets must be adopted for each fiscal year. The Authority’s accounting records must be audited annually. A practical insurance program must be maintained that will provide adequate protection against loss caused by damage to or destruction of the Authority’s assets. Additionally, the aggregate sale of assets during a fiscal year may not exceed one percent of the net property, plant and equipment unless written permission is obtained from an appointed consultant of the USDA.

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

### Note 4. Long-Term Obligations (Continued)

#### Long-Term Member Obligation

Eastern Pines Water Corporation (EPWC), an Authority member, entered into a loan agreement on June 26, 2007, with the USDA to borrow \$6,000,000 to be repaid in annual payments including interest at 4.125% over a 40-year period with the first two years of interest only payments by EPWC. The loan proceeds were given to NRWASA as EPWC's buy-in obligation to become a member of NRWASA, which was recorded as member contribution revenue. As per a Capital Contribution Agreement dated February 23, 2006 between NRWASA and EPWC, EPWC agreed to make twenty annual payments including interest beginning June 26, 2008, on their USDA loan with any remaining balance due the USDA to be assumed by NRWASA at the end of the 20-year term. The above capital contribution agreement further stated that the amount to be assumed by NRWASA would be calculated as if EPWC had received a SRF loan which has rates significantly lower than USDA loan rates, thus, NRWASA will be obligated to assume the outstanding USDA debt up to \$2,176,615 at June 26, 2027, with the first payment being due on June 26, 2028. The net present value of this obligation as of June 30, 2021 was \$1,631,526.

#### Future Maturities

The future maturities of the Authority's long-term obligations, excluding member obligation due beginning in 2028, are as follows:

Fiscal Year	Totals		Note Payable - SRF	USDA Revenue Bonds		Note Payable-SRP	
	Principal	Interest	Principal	Principal	Interest	Principal	Interest
2022	\$ 2,616,469	\$ 2,631,422	\$ 1,337,100	\$ 1,218,369	\$ 2,614,269	\$ 61,000	\$ 17,153
2023	2,669,298	2,577,690	1,337,100	1,271,198	2,561,440	61,000	16,250
2024	2,724,420	2,521,665	1,337,100	1,326,320	2,506,318	61,000	15,347
2025	2,781,933	2,463,250	1,337,100	1,383,833	2,448,805	61,000	14,445
2026	5,516,142	2,402,338	4,011,300	1,443,842	2,388,796	61,000	13,542
2027-2031	8,519,535	11,002,823	-	8,214,535	10,948,655	305,000	54,168
2032-2036	10,462,258	9,037,530	-	10,157,258	9,005,932	305,000	31,598
2037-2041	12,748,785	6,612,452	-	12,559,766	6,603,424	189,019	* 9,028
2042-2046	15,530,954	3,632,236	-	15,530,954	3,632,236	-	-
2047-2048	7,161,048	468,617	-	7,161,048	468,617	-	-
	<u>\$ 70,730,842</u>	<u>\$ 43,350,023</u>	<u>\$ 9,359,700</u>	<u>\$ 60,267,123</u>	<u>\$ 43,178,492</u>	<u>\$ 1,104,019</u>	<u>\$ 171,531</u>

\* Principal amount subject to increase by \$54,981 upon project completion and receipt of final draw, resulting in a total principal due of \$1,159,000.

### Note 5. Retirement Plan

The Authority sponsors a 457 Deferred Compensation Plan administered by a third party for the benefit of all of its full-time employees. Employees are encouraged to make regular, voluntary contributions into the plan. In addition, after the employees have met a one-year waiting period, the Authority will begin contributions in the amount of 5% of eligible wages for the next four years of employment, 7.5% for the next five years and 10% for those employees who have been employed by the Authority for more than 10 years. The Authority's contribution amount for the fiscal year ended June 30, 2021 was \$94,045.

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

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### **Note 6. 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 obtains building coverage in the amount of \$100,659,871 through Jake Parrott Insurance Agency Inc., as well as vehicular coverage. Glatfelter Public Practice Insurance provides general liability and property at \$1 million per claim with a \$3 million aggregate coverage limit, and umbrella coverage of \$10 million. Additionally, Liberty Mutual Insurance provides \$79,988,229 coverage for equipment insurance. Employers Mutual Casualty Company provides \$100,000 of fidelity bond coverage. The Administrative Assistant is bonded in the amount of \$100,000, and the Authority's Treasurer is bonded for \$50,000.

The Authority participates in a self-funded risk financing pool administered by the North Carolina League of Municipalities (NCLM). Through this pool, the Authority obtains workers' compensation coverage up to \$1 million per claim with a \$1 million annual aggregate limit. The Authority also obtains health coverage through the Municipal Insurance Trust of North Carolina, which is sponsored by the NCLM. The employees of the Authority are offered coverage under a Med 500 plan offering eighty percent co-insurance with a lifetime maximum of \$5,000,000 per insured. This trust is reinsured through a commercial carrier for single occurrence claims over \$1,000,000. There have been no significant reductions in insurance coverage from the previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

### **Note 7. Pending GASB Statements**

The Authority has not yet evaluated the effect of implementation of the following GASB pronouncements:

In June 2018, GASB issued 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. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended to issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In June 2017, GASB issued 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. This Statement is effective for fiscal years beginning after June 15, 2021.

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## NOTES TO BASIC FINANCIAL STATEMENTS

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### Note 7. Pending GASB Statements (Continued)

In January 2020, GASB issued 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. The requirements of this Statement are effective for reporting periods beginning after June 15, 2020.

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. This Statement addresses accounting and financial reporting implications that results from the replacement of an interbank offered rate. Paragraph 11b of this Statement, which discusses appropriate benchmark interest rates for a derivative instrument that hedges the interest rate risk of taxable debt is effective for reporting periods ending after December 31, 2021. The remaining Statement is effective for reporting periods beginning after June 15, 2021.

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. 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 GASB Statements and Implementation Guides that first became effective or were scheduled to become effective for periods after June 15, 2018 and later. The adoption of this Statement resulted in the postponement of GASB Statement Nos. 84 through 93 and was effective immediately.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods after June 15, 2022.

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans- An amendment of GASB Statement No. 14 and No. 84, as a Supersession of GASB Statement No 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements in this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans are effective immediately (June 2020), and did not have a material impact on the Authority's financial position, overall cash flow or balances or results of operations. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

## NEUSE REGIONAL WATER AND SEWER AUTHORITY

### NOTES TO BASIC FINANCIAL STATEMENTS

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#### **Note 8. Subsequent Event**

The Authority has evaluated its subsequent events (events occurring after June 30, 2021) through October 13, 2021, which represents the date the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## OPERATING FUND

### SCHEDULE OF REVENUE AND EXPENDITURES, BUDGET AND ACTUAL, NON-GAAP, BUDGETARY SCHEDULE For the Year Ended June 30, 2021

	Annual Budget	Actual	Variance, Positive (Negative)
Revenue:			
Water sales	\$ 10,282,800	\$ 10,282,800	\$ -
Non-Member contributions	130,000	130,000	-
Miscellaneous income	50,000	158,227	108,227
Sales tax	15,000	24,525	9,525
Investment earnings	-	43,261	43,261
<b>Total revenue</b>	<b>10,477,800</b>	<b>10,638,813</b>	<b>161,013</b>
Expenditures:			
Operating:			
Personnel:			
Administrative staff	-	1,191,264	-
Payroll taxes	-	88,457	-
Retirement contribution (457 plan)	-	94,045	-
Health insurance and workers' comp	-	259,441	-
Professional services	-	689,841	-
Chemical, materials and supplies	-	548,699	-
Printing	-	382	-
Postage	-	1,365	-
Meetings/travel	-	2,116	-
Computer supplies and service	-	7,731	-
Utilities	-	519,889	-
Advertising	-	2,617	-
Sales tax	-	24,525	-
Training and employee development	-	2,878	-
Uniform rental	-	6,037	-
Insurance	-	96,693	-
Dues and subscriptions	-	2,521	-
Vehicle expenses	-	57,745	-
Maintenance	-	44,950	-
Miscellaneous	-	7,426	-
Refund of member initiation fees	-	130,000	-
Capital outlay	-	29,508	-
<b>Total expenditures</b>	<b>5,001,100</b>	<b>3,808,130</b>	<b>1,192,970</b>
<b>Revenue over expenditures before debt service and other financing sources and uses</b>	<b>5,476,700</b>	<b>6,830,683</b>	<b>1,353,983</b>



# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## OPERATING FUND

### SCHEDULE OF REVENUE AND EXPENDITURES, BUDGET AND ACTUAL, NON-GAAP, BUDGETARY SCHEDULE (Continued) For the Year Ended June 30, 2021

	Annual Budget	Actual	Variance, Positive (Negative)
Debt service:			
Principal	\$ 2,565,836	\$ 2,565,836	\$ -
Interest	2,674,964	2,674,845	119
<b>Total debt service</b>	<b>5,240,800</b>	<b>5,240,681</b>	<b>119</b>
Other financing sources (uses):			
Appropriated fund balance	484,305	-	(484,305)
Appropriated reserves	(235,900)	(235,900)	-
Transfer to capital fund	(484,305)	(484,305)	-
<b>Net other financing uses</b>	<b>(235,900)</b>	<b>(720,205)</b>	<b>(484,305)</b>
<b>Excess of revenue over expenditures, debt service and other financing uses</b>	<b>\$ -</b>	<b>\$ 869,797</b>	<b>\$ 869,797</b>

#### Reconciliation – modified accrual basis with full accrual:

Excess of revenue over expenditures	\$869,797
Depreciation and amortization expense	(3,446,651)
Capital outlay	29,508
Accrued interest expense change	62,697
Reserve appropriation	235,900
Accretion of member obligation	(65,820)
Accrued compensated absences	13,179
Capital project fund effect on net position	484,305
Principal payment on bonded debt	2,565,836
<b>Increase in net position</b>	<b>\$ 748,751</b>

#### Notes to Schedule:

Basis of Presentation: The Schedule of Revenue and Expenditures, Budget and Actual, is presented on the modified accrual basis of accounting in accordance with North Carolina General Statutes.

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## CAPITAL PROJECT FUND - RAW WATER INTAKE MODIFICATIONS

### SCHEDULE OF REVENUE AND EXPENDITURES, BUDGET AND ACTUAL, NON-GAAP, MODIFIED ACCRUAL BASIS

From Inception and for the Year Ended June 30, 2021

	Total Project Estimates	Prior Years	Actual Current Year	Total To Date
Revenue:				
Golden Leaf Grant	\$ 1,300,000	\$ 1,300,000	\$ -	\$ 1,300,000
Sales Tax	61,127	44,715	16,411	61,126
<b>Total revenue</b>	<b>1,361,127</b>	<b>1,344,715</b>	<b>16,411</b>	<b>1,361,126</b>
Expenditures:				
Non capitilized:				
Sales Tax	-	44,715	16,411	61,126
Capital outlay:				
Constructions- T.A. Loving	4,847,982	2,527,638	2,230,209	4,757,847
Engineering CDM (Construction Admin (Task 100))	186,400	86,960	74,171	161,131
Engineering CDM (SRP Contract Admin) (Task 200)	9,100	-	6,832	6,832
Raise Screens (Task 100)	28,600	-	29,432	29,432
Construction Raise Screens	24,400	-	-	-
Design Drawing and Specifications				
Chemical Tank Replacement (Task 100)	35,800	-	4,123	4,123
Construction Contract Chemical Tank Replacement (Task 400)	28,000	-	-	-
Contstruction Chemical Tank Replacement	287,400	-	-	-
Contigency (5% of construction)	53,200	-	-	-
Closing Costs	24,400	24,400	-	24,400
Geotechnical Site Evaluation	48,380	51,115	-	51,115
Engineering	68,090	63,291	-	63,291
Final Design Fees	169,530	171,087	-	171,087
Permit Application Fees	31,080	26,258	-	26,258
Bidding and Award Fees	38,200	22,654	-	22,654
<b>Total expenditures</b>	<b>5,880,562</b>	<b>3,018,118</b>	<b>2,361,178</b>	<b>5,379,296</b>

# NEUSE REGIONAL WATER AND SEWER AUTHORITY

## CAPITAL PROJECT FUND - RAW WATER INTAKE MODIFICATIONS

### SCHEDULE OF REVENUE AND EXPENDITURES, BUDGET AND ACTUAL, NON-GAAP, MODIFIED ACCRUAL BASIS (Continued) From Inception and for the Year Ended June 30, 2021

	Total Project Estimates	Prior Years	Actual Current Year	Total To Date
Other financing sources (uses):				
SRP Loan Proceeds	1,220,000	822,088	226,950	1,049,038
Transfers from operating account:	3,299,435	2,815,130	484,305	3,299,435
<b>Total other financing sources</b>	<b>4,519,435</b>	<b>3,637,218</b>	<b>711,255</b>	<b>4,348,473</b>
<b>Revenue over (under) expenditures and other financing sources</b>	<b>\$ -</b>	<b>\$ 1,963,815</b>	<b>\$ (1,633,512)</b>	<b>\$ 330,303</b>

Reconciliation – modified accrual basis with full accrual:

Excess of revenue over expenditures	\$ (1,633,512)
Debt proceeds	(226,950)
Capital outlay	<u>2,344,767</u>
<b>Effect on net position</b>	<b><u>\$ 484,305</u></b>

#### Notes to Schedule:

Basis of Presentation: The Schedule of Revenue and Expenditures, Budget and Actual, is presented on the modified accrual basis of accounting in accordance with North Carolina General Statutes.

## **COMPLIANCE SECTION**



**INDEPENDENT AUDITOR'S 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 Honorable Chairman and  
Members of the Board of Directors  
Neuse Regional Water and Sewer Authority

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 Neuse Regional Water and Sewer Authority (the Authority) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 13, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing the 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 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**

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PBMares, LLP*

Morehead City, North Carolina  
October 13, 2021