

REVIEWED

By SLGFD at 2:07 pm, Dec 14, 2021

Ocracoke Sanitary District
Ocracoke, North Carolina

FINANCIAL STATEMENTS
Year Ended June 30, 2021

BOARD OF COMMISSIONERS

Scott Bradley, Chairman

Bill Caswell, Secretary/Treasurer

Flavia Burton, Vice Chairman

Ronnie O'Neal, Jr.

Regina Boor

ADMINISTRATIVE OFFICERS

District Manager

David Tolson

Office Manager

Janie Garrish

**Ocracoke Sanitary District
Table of Contents
June 30, 2021**

<u>Exhibit</u>		<u>Page(s)</u>
	Financial Section	
	Independent Auditors' Report	1 - 2
	Management's Discussion and Analysis	3 - 6
	Basic Financial Statements:	
A	Statement of Net Position	7
B	Statement of Activities	8
C	Statement of Cash Flows	9
	Notes to the Financial Statements	10 - 20
	Required Supplementary Information	
	Schedule of Proportionate Share of Net Pension Liability	21
	Schedule of Contributions	22
	Individual Fund Statements and Schedules:	
	Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	23 - 24

FINANCIAL SECTION



Thompson, Price, Scott, Adams & Co., P.A.
4024 Oleander Drive Suite 3
Wilmington, North Carolina 28403
Telephone (910) 791-4872
Fax (910) 395-4872

Independent Auditor's Report

To the Chairman of the Board
and Members of the Board of Commissioners
Ocracoke Sanitary District
Ocracoke, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The individual fund statements and budgetary schedules are the responsibility of management and were derived from and 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, based on our audit, the procedures performed as described above, the individual fund statements and budgetary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Wilmington, North Carolina

November 26, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

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

Financial Highlights

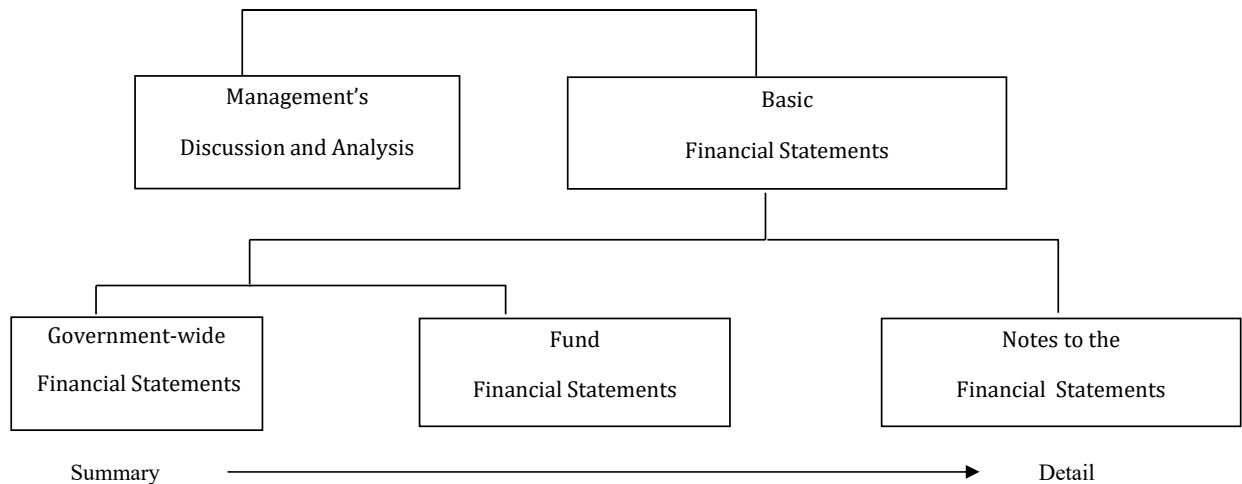
- The assets of the Ocracoke Sanitary District exceeded its liabilities at the close of the fiscal year by \$804,611 (net position).
- The District's total net position decreased by \$212,899.
- The District's general operations resulted in operating loss of \$172,462 for the year. The District strives to provide quality water and service while maintaining fees as low as possible.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Ocracoke Sanitary District's basic financial statements. The District's basic financial statements consist of two components: financial statements, and notes to the financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the District.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the District's financial status.

The next statement (Exhibit 3) is a **Fund Financial Statement**. This statement focus's on the activities of the individual parts of the District's government. This statement provides more detail than the government-wide statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show additional details about the District's individual fund. Budgetary information required by the North Carolina General Statutes can also be found in this part of the statements.

Government-Wide Financials Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the District's financial status as a whole.

The government-wide statements report the District's net position and how it has changed. Net position is the difference between the District's assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the District's financial condition.

The government-wide statements show business-type activities, the only type of activities the District has. Business-type activities are those that the District charges customers to provide. These include providing water service to citizens and businesses in the district. The District does not have any governmental type activities or any component units.

Fund Financial Statements

The fund financial statements provide a more detailed look at the District's most significant activities. 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 Ocracoke Sanitary District, 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 the General Statutes or the District's budget ordinance. The District only has one proprietary fund.

Ocracoke Sanitary District adopts an annual budget as required by the General Statues. The budget is a legally adopted document that incorporates input from the citizens of the District, the management of the District, and the decisions of the board about which services to provide and how to pay for them. It also authorizes the District to obtain funds from identified sources to finance these current period activities. The budgetary schedule demonstrates how well the District complied with the budget ordinance and whether or not the District 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.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found following Exhibit C of this report.

Government-Wide Financial Analysis

**Ocracoke Sanitary District's Net Position
Figure 2**

	2021	2020
Assets:		
Current and other assets	\$ 633,009	\$ 632,466
Capital assets	2,223,709	2,397,400
Total assets	<u>2,856,718</u>	<u>3,029,866</u>
Deferred outflows of resources	68,813	64,214
Liabilities:		
Current liabilities	177,587	187,588
Noncurrent liabilities	1,943,333	1,943,928
Total liabilities	<u>2,120,920</u>	<u>2,131,516</u>
Deferred inflows of resources	-	-
Net position:		
Net investment in capital assets	361,709	520,190
Restricted	13,830	13,510
Unrestricted	429,072	483,810
Total net position	<u>\$ 804,611</u>	<u>\$ 1,017,510</u>

As noted earlier, net position may serve over time as one useful indicator of the District's financial condition. The assets of the District exceeded liabilities by \$804,611 as of June 30, 2021. The District's net position decreased by \$212,899 for the fiscal year ended June 30, 2021. The Board of Commissioners has always tried to maintain water rates at the lowest possible level, which as a result of operating efficiencies remained unchanged. The capital assets net of accumulated depreciation, are \$2,223,709 or 78% of total assets and reflect the District's net investment in capital assets (e.g. land, distribution system and structures, machinery and equipment). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The Board of Commissioners continually monitors operating expenses and the cost of debt service to try to maintain sufficient revenues to operate the water system as efficiently as possible.

**Ocracoke Sanitary District's Changes in Net Position
Figure 3**

	2021	2020
Operating revenue	\$ 703,772	\$ 679,463
Operating expenses	876,234	915,179
Operating income (loss)	<u>(172,462)</u>	<u>(235,716)</u>
Non-operating revenues/(expenses)	(40,437)	(12,264)
Increase (decrease) in net position	<u>(212,899)</u>	<u>(247,980)</u>
Net position, July 1	1,017,510	1,265,490
Net position, June 30	<u>\$ 804,611</u>	<u>\$ 1,017,510</u>

Capital Asset and Debt Administration

Capital Assets. The Ocracoke Sanitary District's investment in capital assets as of June 30, 2021 totals \$2,223,709 (net of accumulated depreciation). These assets included primarily wells, treatment facilities, and water distribution facilities.

Ocracoke Sanitary District's Capital Assets (net of depreciation)

Figure 4

	2021	2020
Deep wells	59,310	65,613
Elevated tank	2,793	4,374
Underground lines	6,068	7,422
Treatment plant equipment	402,859	415,310
Treatment plant addition	1,631,905	1,780,928
Office equipment	5,759	8,368
Vehicles	54,303	64,408
Trailers	495	990
Capitalized interest	60,217	65,776
Total	\$ 2,223,709	\$ 2,413,189

Long-term debt. As of June 30, 2021, the Ocracoke Sanitary District had outstanding debt.

Ocracoke Sanitary District's Outstanding Debt

	2021	2020
Bonds payable	\$ 1,862,000	\$ 1,893,000

Additional information on the District's capital assets can be found in the notes to the Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

- Since Ocracoke Island is a tourist resort area, with tourist season being from Easter to Thanksgiving, with Memorial Day to Labor Day being the peak period, weather can have a great effect on whether we have a good or bad season. Hurricanes can greatly affect the economy for our Island.
- With the plant expansion project complete, there is potential for many new impacts to be sold.
- Revenues and expenses are expected to be steady for the fiscal year ending June 30, 2022 requiring no significant changes to the budget.

Requests for Information

This report is designed to provide an overview of the District's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Ocracoke Sanitary District office, David G. Tolson, Plant & Systems Manager or Janie M. Garrish, Secretary & Bookkeeper at P.O. Box 567, Ocracoke, NC 27960, telephone 252-928-5791.

BASIC FINANCIAL STATEMENTS

**Ocracoke Sanitary District
Statement of Fund Net Position
June 30, 2021**

ASSETS

Current assets:

Cash and cash equivalents	\$ 462,555
Accounts receivable, customers (net)	108,551
Inventories	37,546
Prepaid insurance	10,527
Restricted cash	13,830
Total current assets	<u>633,009</u>

Non-current assets:

Capital assets:

Other capital assets, net of depreciation	2,223,709
Total capital assets	<u>2,223,709</u>
Total assets	<u>2,856,718</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension deferrals - LGERS	<u>68,813</u>
---------------------------	---------------

LIABILITIES

Current liabilities:

Accounts payable	19,556
Deferred revenues	102,201
Payable from restricted assets - customer deposits	13,830
Compensated absences - current	10,000
Current portion of long-term debt	32,000
Total current liabilities	<u>177,587</u>

Noncurrent liabilities:

Compensated absences	11,848
Revenue Bonds	1,830,000
Net pension liability (LGERS)	101,485
Total noncurrent liabilities	<u>1,943,333</u>
Total liabilities	<u>2,120,920</u>

DEFERRED INFLOWS OF RESOURCES

Pension deferrals - LGERS	<u>-</u>
---------------------------	----------

NET POSITION

Net investment in capital assets	361,709
Restricted	13,830
Unrestricted	429,072
Total net position	<u>\$ 804,611</u>

**Ocracoke Sanitary District
Statements of Revenues, Expenses, and
Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2021**

OPERATING REVENUES	
Water sales	\$ 654,282
System development fees	42,730
Other revenue	<u>6,760</u>
Total operating revenues	<u>703,772</u>
OPERATING EXPENSES	
Salaries and benefits	310,595
Operating expenses	322,590
Depreciation	<u>243,049</u>
Total operating expenses	<u>876,234</u>
Operating income (loss)	<u>(172,462)</u>
NONOPERATING REVENUES (EXPENSES)	
Rental income	38,333
Investment earnings	1,676
Interest and other charges	<u>(80,446)</u>
Total nonoperating revenues (expenses)	<u>(40,437)</u>
Change in net position	(212,899)
Net position, beginning	<u>1,017,510</u>
Net position, ending	<u>\$ 804,611</u>

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

**Ocracoke Sanitary District
Statements of Cash Flows
For The Fiscal Year Ended June 30, 2021**

	Major Enterprise Fund
Cash flows from operating activities:	
Cash received from customers	\$ 647,145
Cash paid for goods and services	(301,909)
Cash paid to or on behalf of employees for services	(289,825)
Net cash provided (used) by operating activities	55,411
 Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(53,569)
Principal paid on bond	(31,000)
Interest paid on bond	(80,446)
Net cash provided (used) by capital and related financing activities	(165,015)
 Cash flows from investing activities:	
Interest on investments	1,676
Rent revenue	38,333
Net cash provided (used) by investing activities	40,009
 Net increase (decrease) in cash and cash equivalents	 (69,595)
 Cash and cash equivalents:	
Beginning of year, July 1	545,980
End of year, June 30	\$ 476,385
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (172,462)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	243,049
 Changes in assets, deferred outflows for resources, and liabilities:	
(Increase) decrease in accounts receivable (net)	(55,993)
(Increase) decrease in inventory	(1,797)
(Increase) decrease in prepaid expenses	(1,771)
(Increase) decrease in other receivables	2,934
Increase (decrease) in accounts payable	12,230
Increase (decrease) in deferred revenue	8,451
(Increase) decrease in deferred outflows of resources	(4,599)
Increase (decrease) in compensated absences	5,812
Increase (decrease) in net pension liability	19,557
Net cash provided (used) by operating activities	\$ 55,411

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

NOTES TO THE FINANCIAL STATEMENTS

Ocracoke Sanitary District
Notes to the Financial Statements
For the Year Ended June 30, 2021

I. Summary of Significant Accounting Policies

The accounting policies of the Ocracoke Sanitary District (the "District") conform to generally accepted accounting principles as applicable to governments. The District does not have any discretely presented component units. The following is a summary of the more significant accounting policies:

A. Reporting Entity

Ocracoke Sanitary District (the District) was created on May 24, 1972, under provisions of the North Carolina General Statute 130-12, for the purpose of providing residents of Ocracoke, North Carolina with a freshwater system. The District was formed as a public authority with the board of directors being elected annually in the general election.

B. Basis of Presentation

The statements of net positions and the statements of revenues, expenses and changes in net position display information about the District. These statements include the financial activities of the District. The district operates as a single-purpose government and reports all activities as one proprietary fund.

A separate schedule of revenues, expenditures budget and actual (Non-GAAP) is presented. In this 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. Other non-operating revenues are ancillary activities such as investment earnings.

C. Measurement Focus and Basis of Accounting

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

The financial statements are prepared using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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 principal ongoing operations. The principal operating revenues of the district are charges to customers for water service.

The District also recognizes, as operating revenue, the portion of tap fees intended to recover the cost of connecting new customers to the water system . Operating expenses include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Data

The District's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted, and all annual appropriations lapse at the fiscal year end. The budget is prepared using the accrual basis of accounting, which is consistent with the accounting system used for presentation of financial statements. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds. A function is a group of related activities aimed at accomplishing a major service, such as operating expenses, capital outlay, or debt service. Amendments are required for any revisions that alter total expenditures of the enterprise fund . All amendments must be approved by the board of directors.

E. Assets, Liabilities, Deferred Outflows/Inflows or Resources, and Fund Equity

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the District to invest in obligations of the United States 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 District; 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 District's investments are reported at fair value. Non-participating interest earning investment contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. The NCCMT-Term Portfolio is a bond fund, has no rating and is measured at fair value. As of June 30, 2021, the Term Portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are, therefore, considered cash and cash equivalents.

3. Restricted Assets

Customer deposits held by the District before any services are supplied are restricted to the service for which the deposit was collected. Customer deposits totaled \$13,830 for the fiscal year ended June 30, 2021.

4. Accounts Receivable

The District grants credit to customers, substantially all are residents of Ocracoke, North Carolina. The risk of loss on the accounts receivable is the balance due at time of default. It is the practice of the District to charge operations for specific accounts, as they are deemed uncollectible.

5. Inventories

The inventories of the District are valued at cost (first-in, first-out), which approximates market. The District's inventory consists of materials and supplies held for subsequent use. The cost of these inventories is expended when consumed rather than when purchased.

6. Prepaid Items

Some payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expense in the Statement of Net Position, and will be expensed as the item is utilized.

7. Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. 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:

<u>Asset class</u>	<u>Estimated useful lives</u>
Deep wells	25-30 years
Elevated tank	20 years
Treatment plant and underground lines	20-40 years
Treatment plant equipment	3-10 years
Office equipment	2-10 years
Vehicles	5 years

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District has one item that meet this criterion, contributions to pension plan in the current year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District has one item that meets this criterion, deferrals of pension expense that result from the implementation of GASB Statement 68.

9. Long-term obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

10. Compensated absences

The vacation policy of the District provides for the accumulation of up to thirty days (240 hours) earned vacation leave with such leave being fully vested when earned. Employees forfeit any vacation leave that accumulates over the thirty-day allowance. An expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The District has assumed a first-in, first-out method of using accumulated compensated time. The portion of time estimated to be used in the next fiscal year has been designated as a current liability in the statements.

11. Accounting 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 the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

12. Net Position

Net position in government-wide and 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. When expenditures meet the qualifications of the use of restricted net position, the restricted net position will be used prior to unrestricted net position.

13. Pensions

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

II. Stewardship, Compliance, and Accountability

A. Significant Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

None.

2. Contractual Violations

In accordance with Section 5.01 of the Bond Order authorizing the issuance of Water System Revenue, which stipulates that the debt service charge ratio not be less than 110%. The District's coverage rate was only 100% which violates section 5.01 of the Bond Order.

3. Deficit in Fund Balance or Net Position of Individual Funds

None.

4. Excess of Expenditures over Appropriations

None.

III. Detail Notes on All Funds

A. Assets

1. Deposits and Investments

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

At June 30, 2021, the District's deposits had a carrying value of \$476,185 and a bank balance of \$481,349. Of the bank balance \$250,000 as covered by federal depository insurance. The remaining balance was covered by the collateral held under the Pooling Method. At June 30, 2021, the District's petty cash fund totaled \$200.

2. Receivables - Allowances for Doubtful Accounts

Accounts receivable at June 30, 2021, and are comprised of amounts due from customers for water service. All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. Uncollectible accounts are deemed to be immaterial for the District, in light of historic collectability.

3. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Construction in progress	37,433	-	37,433	-
Total capital assets not being depreciated	37,433	-	37,433	-
Capital assets being depreciated:				
Deep wells	344,234	-	-	344,234
Elevated tank	483,533	-	-	483,533
Underground lines	860,255	-	-	860,255
Treatment plant equipment	2,442,158	46,268	-	2,488,426
Treatment plant addition	2,943,018	37,433	-	2,980,451
Office equipment	45,634	-	-	45,634
Vehicles	105,343	7,301	-	112,644
Capitalized interest	111,172	-	-	111,172
Deferred charges	7,480	-	-	7,480
Trailers	2,475	-	-	2,475
Total capital assets being depreciated	7,345,302	91,002	-	7,436,304
Less accumulated depreciation for:				
Deep wells	278,621	6,303	-	284,924
Elevated tank	479,159	1,581	-	480,740
Underground lines	852,833	1,354	-	854,187
Treatment plant equipment	2,026,848	58,719	-	2,085,567
Treatment plant addition	1,199,523	149,023	-	1,348,546
Office equipment	37,266	2,609	-	39,875
Vehicles	40,935	17,406	-	58,341
Capitalized interest	45,396	495	-	45,891
Deferred charges	7,480	5,559	-	13,039
Trailers	1,485	-	-	1,485
Total accumulated depreciation	4,969,546	\$ 243,049	\$ -	5,212,595
Total capital assets being depreciated, net	2,375,756			2,223,709
Capital assets, net	\$ 2,413,189			\$ 2,223,709

4. Pension Plan Obligations

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. District employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The District's contractually required contribution rate for the year ended June 30, 2021, was 10.29% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. \$25,416 for the year ended June 30, 2021.

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

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

At June 30, 2021, the District reported a liability of \$101,485 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The District's proportion of the net pension liability was based on a projection of the District's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2021, the District's proportion was .00284%, which was a decrease of .00016% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2021, the District recognized pension expense of \$43,397. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 12,816	\$ -
Changes of assumptions	7,552	-
Net difference between projected and actual earnings on pension plan investments	14,281	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	8,748	-
Employer contributions subsequent to measurement date	25,416	-
Total	<u>\$ 68,813</u>	<u>\$ -</u>

\$25,416 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2022	\$ 13,519
2023	15,934
2024	9,718
2025	4,226
2026	-
Thereafter	-
	<u>\$ 43,397</u>

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

Inflation	3.0 percent
Salary Increase	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net position of pension plan investment expense, including inflation

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

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

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

The projected long-term investment returns, and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100.0%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2019 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
District's proportionate share of the net pension liability (asset)	205,903	\$ 101,485	14,707

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

Supplemental Retirement Income Plan (401K)

Plan Description: Ocracoke Sanitary District participates in the Supplement Retirement Income Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The plan provides retirement benefits to all employees of the District who are employed at least half time. Article 5 of the G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The District does not contribute to the plan. Employees made voluntary contributions of \$15,600 for fiscal year ended June 30, 2021.

Funding Policy: The Supplemental Retirement Income Plan is provided through the Local Government Employees' Retirement System. In a defined contribution, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The District does not contribute to this plan. All covered employees may make voluntary contributions to the plan.

5. Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains general liability and auto liability insurance coverage of \$2.5 million and 1.1 million respectively per occurrence with various commercial carriers. Property coverage up to total insurance values of the property policy, flood insurance up to \$235,700, workman's compensation coverage up to statutory limits, and employee health coverage up to a \$5 million lifetime limit.

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

The District carries flood insurance through BB&T Insurance Services, Inc. Because the District is in an area of the State that has been mapped and designated an "AE" area (an area in the 100-year floodplain) by the Federal Emergency Management Agency, the District is eligible to purchase coverage of \$500,000 per structure.

Fidelity bond coverage for the Finance Officer is \$50,000 per occurrence. The District also has fidelity coverage for all the officers, directors and employees through a commercial surety bond of up to \$50,000 per occurrence.

6. Claims and Judgments

At June 30, 2021, the District was not a defendant in any lawsuits.

7. Long-Term Obligations

a. Revenue Bond

Revenue anticipation bonds consist of the following individual issues outstanding at June 30, 2021.

\$2,075,000 2014 water project bonds due in remaining annual installments ranging from \$23,000 to \$106,000 Beginning June 1, 2021 and continuing through June 1, 2051; interest at 4.25% accruing annually beginning June 1, 2011.

\$ 1,862,000

The future payments of the revenue bond are as follows:

Year ending June 30	Principal	Interest
2022	\$ 32,000	\$ 79,135
2023	33,000	77,775
2024	35,000	76,373
2025	36,000	74,885
2026	38,000	73,355
2027 - 2031	214,000	341,275
2032 - 2036	263,000	291,848
2037 - 2041	324,000	230,860
2042 - 2048	399,000	156,060
2049 - 2051	488,000	63,878
Total	<u>\$ 1,862,000</u>	<u>\$ 1,465,443</u>

The District is not 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 System Revenue Bonds. Section 5.01 of the Bond Order requires the debt service coverage ratio to be no less than 110%. The debt service coverage ratio calculation for the year ended June 30, 2021 is as follows:

	2021
Operating revenue	\$ 703,772
Operating expenses*	633,185
Operating income	70,587
Nonoperating revenues (expenses)**	40,009
Income available for debt service	110,596
Debt service, principal & interest paid (revenue bond only)	111,135
Debt service coverage ratio	100%

- *Per rate covenants, this does not include the depreciation and amortization expense of \$243,049.
- ** Per rate covenants, this does not include revenue bond interest paid of \$80,446.

Water and Sewer Fund	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Revenue bonds	\$ 1,893,000	\$ -	\$ 31,000	\$ 1,862,000	\$ 32,000
Net pension liability (LGERS)	81,928	19,557	-	101,485	-
Compensated absences	16,036	14,377	8,565	21,848	10,000
Water sewer fund long-term liabilities	<u>\$ 1,990,964</u>	<u>\$ 33,934</u>	<u>\$ 39,565</u>	<u>\$ 1,985,333</u>	<u>\$ 42,000</u>

8. Significant Effects of Subsequent Events

Events occurring after June 30, 2021 were evaluated by management on November 26, 2021 to ensure that any subsequent events that met the criteria for recognition and/or disclosure to these financial statements have been included. There were no subsequent events requiring disclosure.

REQUIRED
SUPPLEMENTAL FINANCIAL DATA

This section contains additional information required by generally accepted
accounting principals.

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

Schedule of Contributions – Local Government
Employees’ Retirement System

Ocracoke Sanitary District, North Carolina
Ocracoke's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Eight Fiscal Years*

Local Government Employees' Retirement System

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset) (%)	0.00284%	0.00300%	0.00321%	0.00330%	0.00335%	0.00282%	0.0028%	0.0280%
District's proportion of the net pension liability (asset) (\$)	\$ 101,485	\$ 81,928	\$ 76,152	\$ 50,415	\$ 71,098	\$ 12,656	\$ (16,336)	\$ 33,751
District's covered-employee payroll	\$ 289,511	\$ 282,690	\$ 277,255	\$ 271,517	\$ 264,814	\$ 247,730	\$ 231,343	\$ 217,517
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	35.05%	28.98%	27.47%	18.57%	26.85%	5.11%	(7.06%)	15.52%
Plan fiduciary net position as a percentage of the total pension liability**	88.61%	90.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

**Ocracoke Sanitary District Contributions
Required Supplementary Information
Last Eight Fiscal Years**

Local Government Employees' Retirement System

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 25,416	\$ 26,288	\$ 22,248	\$ 21,127	\$ 20,011	\$ 17,490	\$ 17,515	\$ 13,053
Contributions in relation to the contractually required contribution	25,416	26,288	22,248	21,127	20,011	17,490	17,515	13,053
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 247,001	\$ 289,511	\$ 282,690	\$ 277,255	\$ 271,517	\$ 264,814	\$ 247,730	\$ 231,343
Contributions as a percentage of covered-employee payroll	10.29%	9.08%	7.87%	7.62%	7.37%	6.60%	7.07%	5.64%

INDIVIDUAL FUND SCHEDULES

Ocracoke Sanitary District, North Carolina
Schedule of Revenues, Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2021

	2021		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenue:			
Water sales		\$ 654,282	
System development fees		42,730	
Other operating revenues		6,760	
Total operating revenues	<u>\$ 823,046</u>	<u>703,772</u>	<u>\$ (119,274)</u>
Nonoperating revenues:			
Rent revenue		38,333	
Interest earned		1,676	
Total non-operating revenues	<u>34,500</u>	<u>40,009</u>	<u>5,509</u>
 Total Revenues:	 <u>857,546</u>	 <u>743,781</u>	 <u>(113,765)</u>
Expenditures:			
Operating expenditures:			
Salaries and benefits		289,825	
Plant and system		116,783	
Insurance		109,040	
Supplies		27,357	
Utilities		60,647	
Maintenance		1,815	
Professional fees		2,902	
Travel		4,046	
Total operating expenditures	<u>691,100</u>	<u>612,415</u>	<u>78,685</u>
Capital outlay:	<u>55,000</u>	<u>53,569</u>	<u>1,431</u>
Debt service:			
Principal retirement		31,000	
Interest expense		80,446	
Total debt service	<u>111,446</u>	<u>111,446</u>	<u>-</u>
Total expenditures	<u>857,546</u>	<u>777,430</u>	<u>80,116</u>
Revenue over/(under) expenditures	<u>-</u>	<u>(33,649)</u>	<u>(33,649)</u>
Other financing sources (uses):			
Fund balance appropriated	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over/(under) expenditures	<u>\$ -</u>	<u>\$ (33,649)</u>	<u>\$ (33,649)</u>

Ocracoke Sanitary District, North Carolina
Schedule of Revenues, Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2021

	2021		
	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues over expenditures		\$ (33,649)	
Reconciling items:			
Capital outlay		53,569	
Principal retirement		31,000	
Depreciation		(243,049)	
Increase (decrease) in deferred outflows of resources		4,599	
(Increase) decrease in compensated absences		(5,812)	
(Increase) decrease in net pension liability		(19,557)	
Total reconciling items		(179,250)	
Change in net position		\$ (212,899)	