

Southeast Brunswick Sanitary District
Southport, North Carolina
Financial Statements
June 30, 2021

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Financial Statements
June 30, 2021

District Manager

Bryan McCabe

Board of Commissioners

Bob Lloyd

Peter Goewey

Ed Burnett

Robert Smith, Chairman

Gordon Corlew

District Clerk

Kate White

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FINANCIAL SECTION



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Independent Auditors' Report

To the Board of Commissioners
Southport, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Southeast Brunswick Sanitary District, North Carolina, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 the 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 and each major fund of the Southeast Brunswick Sanitary District, North Carolina as of June 30, 2021, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison 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 Management's Discussion and Analysis on pages 3 through 8 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions on pages 22 and 23, 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.

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 Southeast Brunswick Sanitary District. The individual fund statement, budgetary schedule and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statement, budgetary schedule and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the individual fund financial statement, budgetary schedule and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2021, on our consideration of Southeast Brunswick Sanitary District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Southeast Brunswick Sanitary District's internal control over financial reporting and compliance.

Thompson, Price, Scott, Adams & Co., P.A.

Thompson, Price, Scott, Adams & Co., P.A.
Whiteville, North Carolina
October 22, 2021

Management's Discussion and Analysis

As management of the Southeast Brunswick Sanitary District, we offer readers of the Southeast Brunswick Sanitary District's financial statements this narrative overview and analysis of the financial activities of the Southeast Brunswick 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 and deferred outflows of resources of the Southeast Brunswick Sanitary District exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$10,331,247.
- The District's total net position increased by \$181,637.

Overview of the Financial Statements

Southeast Brunswick Sanitary District's primary mission is to provide sewer services to the surrounding area. The District does not provide other basic government services or programs. The District's operations, capital expansion projects and debt payments are funded almost entirely through rates, fees and other charges for these sewer services. As such, South Brunswick Sanitary District is considered to be, and therefore presents its financial report, as a stand-alone enterprise fund.

As a stand-alone enterprise fund, the District's basic financial statements consist of a *Statement of Net Position*, a *Statement of Revenues, Expenses and Changes in Fund Net Position* and a *Statement of Cash Flows*. These statements, together with the *Management's Discussion and Analysis*, provide both short-term and long-term financial information about, and implications, for the District's position. To further illuminate the information contained in these statements, *Notes to the Financial Statements* and a *Schedule of Revenues and Expenditures-Budget to Actual*, appear immediately following the basic financial statements. In addition to this discussion and analysis, other required supplementary information, generally statistical and demographic in nature, is presented.

The Statement of Net Position, similar to a balance sheet, presents the District's basic financial position through disclosure of information about Southeast Brunswick Sanitary District's assets and liabilities. Net position represents the difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources.

The Statement of Revenues, Expenses, and Changes in Fund Net Position, similar to private sector statements, provides information regarding the District's total economic resource inflow and outflow (accrual method of accounting). The difference between these inflows and outflows represents the change in net position, which links this statement to the *Statement of Net Position*.

The *Statement of Cash Flows* deals specifically with the flow of cash and cash equivalents arising from operating, financing and investment activities. Because the District's *Statement of Revenues, Expenses, and Changes in Fund Net Position* is a measurement of the flow of total economic resources, operating income usually differs from net cash flow from operations. To enhance the reader's understanding of this difference, the *Statement of Cash Flows* also includes reconciliation between these two amounts. In accordance with accounting principles generally accepted in the United States of America, a reconciliation of cash and cash equivalents is also presented in this statement.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic and fund financial statements. The notes to the financial statements begin on page 12 of this report.

Interdependence with Other Entities: The District receives financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this, the District is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

Southeast Brunswick Sanitary District Net Position
Figure 1

| | Business-Type Activities | |
|---|--------------------------|---------------|
| | 2021 | 2020 |
| Cash and cash equivalents, includes restricted cash | \$ 3,937,629 | \$ 3,588,939 |
| Total receivables, net | 181,611 | 189,363 |
| Capital assets, net | 10,644,557 | 10,989,251 |
| Deferred outflows of resources | 124,565 | 124,353 |
| Total assets and deferred outflows of revenue | 14,888,362 | 14,891,906 |
| Long-term liabilities outstanding | 4,078,584 | 4,307,304 |
| Net pension liability | 132,931 | 95,582 |
| Other liabilities | 345,600 | 339,410 |
| Deferred inflows of resources | - | - |
| Total liabilities and deferred inflows of resources | 4,557,115 | 4,742,296 |
| Net position: | | |
| Net investment in capital assets | 6,359,322 | 6,473,612 |
| Restricted | 198,427 | 198,130 |
| Unrestricted | 3,773,498 | 3,477,868 |
| Total net position | \$ 10,331,247 | \$ 10,149,610 |

As noted earlier, net position may serve over time as one useful indicator of an entity's financial condition. The assets and deferred outflows of the Southeast Brunswick Sanitary District exceeded liabilities and deferred inflows by \$10,331,247 as of June 30, 2021. The District's net position increased by \$181,637 for the fiscal year ended June 30, 2021. However, the largest portion, 62%, reflects the District's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Southeast Brunswick Sanitary District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the South East Brunswick Sanitary District's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the South East Brunswick Sanitary District's net position, \$198,427, represents resources that are subject to external restrictions on how they may be used.

Several particular aspects of the District's financial operation positively influenced the total unrestricted net position for the fiscal year ended June 30, 2021:

- Grinder pump installation fee charges which totaled \$105,750 for the year.
- Increase in sewer charges over the prior year in the amount of \$106,635.
- Increase in tap and impact fees over the prior year in the amount of \$170,154.

Southeast Brunswick Sanitary District Changes in Net Position
Figure 2

| | Business-Type Activities 2021 | Business-Type Activities 2020 |
|-------------------------------------|-------------------------------------|-------------------------------------|
| Revenues: | | |
| Operating revenues: | | |
| Sewer charges | \$ 1,807,662 | \$ 1,701,027 |
| Grinder pump fees | 105,750 | - |
| Tap and impact fees | 404,094 | 233,940 |
| Other operating revenues | - | - |
| Nonoperating revenues: | | |
| Insurance Claim | - | 31,098 |
| Investment earnings | 1,688 | 22,150 |
| Miscellaneous revenues | 3,522 | 3,218 |
| FEMA | - | - |
| Capital contributions | - | - |
| Total revenues | <u>2,322,716</u> | <u>1,991,433</u> |
| Expenses: | | |
| Administration | 669,799 | 657,708 |
| Sewer operations | 767,540 | 559,551 |
| Depreciation | 509,545 | 496,706 |
| Interest expense | 194,195 | 203,690 |
| Other | - | - |
| Total expenses | <u>2,141,079</u> | <u>1,917,655</u> |
| Increase (Decrease) in net position | 181,637 | 73,778 |
| Net position, July 1 | 10,149,610 | 10,075,832 |
| Net position, June 30 | <u>\$ 10,331,247</u> | <u>\$ 10,149,610</u> |

Business-type activities: Business-type activities increased the Southeast Brunswick Sanitary District's net position by \$181,637, accounting for 100% of the total increase in the district's net position.

Capital Asset and Debt Administration

Capital Assets. The Southeast Brunswick Sanitary District investment in capital assets for its business-type activities as of June 30, 2021, totals \$10,644,557 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment and plant distribution systems.

There were capital asset transactions during the year of \$164,851 for year end June 30, 2021.

**Southeast Brunswick Sanitary District Capital Assets
(Net of depreciation)
Figure 3**

| | Business-Type 2021 | Business-Type 2020 |
|------------------------------------|-----------------------|-----------------------|
| Land | \$ 77,603 | \$ 77,603 |
| Furniture and equipment | 97,553 | 119,092 |
| Construction in process | - | - |
| Plant, buildings, and sewer system | 10,469,401 | 10,792,556 |
| Total | \$ 10,644,557 | \$ 10,989,251 |

Additional information on the District's capital assets can be found in Note III of the Basic Financial Statements.

Long-term Debt. As of June 30, 2021, the Southeast Brunswick Sanitary District had total bonded debt outstanding of \$4,090,237. Of this, \$737,500 is debt backed by the full faith and credit of the District. The remainder of the District's bonds are secured solely by specified revenue sources (i.e. revenue bonds). Additional debt of the District includes a direct payment installment purchase with a balance of \$195,000 as of June 30, 2021. Additional information regarding the Southeast Brunswick Sanitary District's long-term debt can be found in Note III.B.5 of this report.

**Southeast Brunswick Sanitary District
Debt Summary
Figure 4**

| | Business-Type Activities 2021 | Business-Type Activities 2020 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| General obligations bonds | \$ 737,500 | \$ 769,500 |
| Revenue bonds | 3,352,737 | 3,464,473 |
| Direct placement installment purchase | 195,000 | 281,667 |
| Total | \$ 4,285,237 | \$ 4,515,640 |

Budget Highlights for the Fiscal Year Ending June 30, 2022

Business–Type Activities: The District has budgeted revenues in the amount of \$2,379,289 for the upcoming year. The District will also continue participation in the Local Governmental Employees' Retirement System (LGERS). This will increase amounts spent for retirement for the District.

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 District Manager, Southeast Brunswick Sanitary District, 4240 Committee Drive, Southport, NC 28461. One can also call 910-457-0006, or send an email to kwhite@southeastbrunswick.com for more information.

BASIC FINANCIAL STATEMENTS

Exhibit 1

**Southeast Brunswick Sanitary District, North Carolina
Statement of Net Position
June 30, 2021**

| | Business-Type Activities |
|---|-------------------------------------|
| Assets | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 3,685,577 |
| Accounts Receivable (Net) | |
| Sales Tax | 10,596 |
| Sewer Charges (Net) - Billed | 12,904 |
| Sewer Charges (Net) - Unbilled | 158,111 |
| Restricted Cash and Cash Equivalents | 252,052 |
| Total Current Assets | 4,119,240 |
| Non-Current Assets: | |
| Capital Assets: | |
| Land, Non-Depreciable Improvements and Construction in Progress | 77,603 |
| Other Capital Assets, Net of Depreciation | 10,566,954 |
| Total Capital Assets | 10,644,557 |
| Total Assets | 14,763,797 |
| Deferred Outflows of Resources | |
| Pension Deferrals | 124,565 |
| Total deferred outflows of resources | 124,565 |
| Liabilities | |
| Current Liabilities: | |
| Accounts Payable and Accrued Liabilities | 12,006 |
| Accrued Interest Payable | 15,283 |
| Customer Deposits | 53,625 |
| Overpayments/Prepayments on Account | 26,365 |
| Current Portion of Long-Term Liabilities | 238,321 |
| Total Current Liabilities | 345,600 |
| Long-Term Liabilities: | |
| Net Pension Liability | 132,931 |
| Due in More Than One Year | 4,078,584 |
| Total Long Term Liabilities | 4,211,515 |
| Total Liabilities | 4,557,115 |
| Deferred Inflows of Resources | |
| Pension Deferrals | - |
| Total deferred inflows of resources | - |
| Net Position | |
| Net investment in capital assets | 6,359,322 |
| Restricted | 198,427 |
| Unrestricted | 3,773,498 |
| Total Net Position | \$ 10,331,247 |

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

Exhibit 2

**Southeast Brunswick Sanitary District, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2021**

| | <u>Sewer Fund</u> |
|---|------------------------------|
| Operating Revenues: | |
| Sewer Charges | \$ 1,807,662 |
| Grinder Pump Installation Fees | 105,750 |
| Tap and Impact Fees | 404,094 |
| Other Operating Revenue | - |
| Total Operating Revenues | <u>2,317,506</u> |
| Operating Expenses: | |
| Administration Expenses | 669,799 |
| Sewer Operations | 767,540 |
| Depreciation | 509,545 |
| Total Operating Expenses | <u>1,946,884</u> |
| Operating Income (Loss) | <u>370,622</u> |
| Nonoperating Revenues (Expenses): | |
| Investment Earnings | 1,688 |
| Miscellaneous Revenues | 3,522 |
| Insurance Claims | - |
| Interest Expense | (194,195) |
| Total Nonoperating Revenues (Expenses) | <u>(188,985)</u> |
| Total Income (Loss) before contributions and transfers | 181,637 |
| Capital Contributions | <u>-</u> |
| Change in Net Position | 181,637 |
| Total Net Position, Beginning | <u>10,149,610</u> |
| Total Net Position, Ending | <u><u>\$ 10,331,247</u></u> |

**Southeast Brunswick Sanitary District, North Carolina
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2021**

| | |
|---|----------------------------|
| Cash Flows From Operating Activities: | |
| Cash Received From Customers | \$ 2,325,258 |
| Cash Paid for Goods and Services | (901,479) |
| Cash Paid to or on behalf of Employees for Services | (496,872) |
| Customer Deposits Received/ (Returned) | <u>6,022</u> |
| Net Cash Provided (Used) by Operating Activities | <u>932,929</u> |
| Cash Flows from Capital and Related Financing Activities: | |
| Interest Payments | (194,195) |
| Principal Payments on Debt | (230,403) |
| Insurance Claims | - |
| Acquisition of Capital Assets | <u>(164,851)</u> |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(589,449)</u> |
| Cash Flows From Investing Activities: | |
| Interest on Investments and Assessments | 1,688 |
| Non-Operating Revenues | <u>3,522</u> |
| Net Cash Provided (Used) By Investing Activities | <u>5,210</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 348,690 |
| Cash and Cash Equivalents: | |
| Beginning of Year, July 1 | <u>3,588,939</u> |
| End of Year, June 30 | \$ <u><u>3,937,629</u></u> |
| Reconciliation of Operating Income to | |
| Net Cash Provided by (Used In) Operating Activities: | |
| Operating Income(Loss) | \$ <u>370,622</u> |
| Adjustments to Reconcile Operating | |
| Income to Net Cash Provided by Operating Activities: | |
| Depreciation | 509,545 |
| Changes in Assets and Liabilities: | |
| (Increase) Decrease in Receivables | 7,752 |
| (Increase) Decrease in Deferred Outflows of Resources - Pensions | (212) |
| Increase (Decrease) in Accounts Payable & Accrued Liabilities | (393) |
| Increase (Decrease) in Compensation Payable & Accrued Payroll Expenses | 2,244 |
| Increase (Decrease) in Deposits and Overpayments | 6,022 |
| Increase (Decrease) in Net Pension Liability | 37,349 |
| Increase (Decrease) in Deferred Inflows of Resources - Pensions | - |
| Total Adjustments | <u>562,307</u> |
| Net Cash Provided by Operating Activities | \$ <u><u>932,929</u></u> |

Southeast Brunswick Sanitary District, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2021

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Southeast Brunswick Sanitary District is a municipal corporation that is governed by a five-member council. As required by generally accepted accounting principles, these financial statements present the District. The District does not have any component units that should be presented.

B. Basis of Presentation

The Southeast Brunswick Sanitary District is a single enterprise fund, the Sewer Fund, which is used to account for the District's sewer operations.

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

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the District are maintained during the year using the modified accrual basis of accounting.

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources management focus. The proprietary fund financial statements are reported using the economic resources measurement focus. The proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District 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.

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the sewer system. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Data

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

E. Assets, Liabilities, Deferred Outflows/Inflows of 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 authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The 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) external investment pool, is measured at fair value. Because the NCCMT Government Portfolio 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 is essentially considered demand deposits and, therefore, considered cash and cash equivalents.

3. Restricted Assets

Customer deposits, held by the District before any sewer services are supplied, are restricted to the service for which the deposit was collected. Also, restricted are funds set aside in the debt service reserve accounts.

Southeastern Brunswick Sanitary District Restricted Cash

Business-type Activities

Sewer Fund

| | |
|----------------------|-------------------|
| Customer Deposits | \$ 53,625 |
| Debt Service Reserve | 198,427 |
| Total | <u>\$ 252,052</u> |

4. Ad Valorem Taxes Receivable

The District has the power to levy ad valorem taxes. The District began to levy taxes during the 1998-1999 fiscal year. However, the District decided to discontinue the levying of ad valorem taxes as of July 1, 2003.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years and by reviewing the remaining balances due to the District. As of June 30, 2021, the District reported an allowance for doubtful accounts in the amount of \$17,966 for sewer charges receivable.

6. Inventory and Prepaid Items

The District currently has no funds with inventory. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

7. Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 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 receivable prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost of estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|------------------------|-------------------------------|
| Sewer Systems | 40 Years |
| Other Improvements | 40 years |
| Sewer System Equipment | 10 Years |
| Office Equipment | 5-7 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 meets this criterion- pension deferrals. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District has one item that meets the criterion for this category- pension deferrals.

9. Long-Term Obligations

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or proprietary fund type statement of net position. Bonds payable are reported net of the applicable bond premiums or discount.

10. Compensated Absences

The vacation policy of the District provides that an employee shall earn 96 hours of vacation leave per year for the first ten years of service. For years eleven through twenty, 120 hours of vacation leave are earned per year. For twenty years and beyond, 144 hours of vacation leave are earned. The District provides for an unlimited accumulation until the pay period containing June 30 of each fiscal year. However, if an employee separates from service, payment for accumulated vacation leave shall not exceed 240 hours. During the pay period containing June 30, any employee with more than 240 hours shall have the excess accumulation converted to sick leave so that only an accumulation of no more than 240 hours of vacation leave carries forward to July 1 of the next fiscal year. The District has recorded an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The District has assumed the first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The District's sick leave policy provides for an unlimited accumulation of earned sick leave. This time may be used as credit for service with the District. Since the District has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Unused vacation for all employees at June 30, 2021 amounted to \$31,668.

11. Net Position

Net position in proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents 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.

12. Defined Benefit Cost-Sharing Plans

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

II. Stewardship, Compliance, and Accountability

None noted.

2. Contractual Violations

None noted.

B. Deficit in Fund Balance of Individual Funds Not Appropriated in Subsequent Year's Budget Ordinance

None noted.

C. Excess of Expenditures Over Appropriations

None Noted

III. Detail Notes on All Funds

A. Assets

1. Deposits

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 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 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 amount of \$2,324,412 and a bank balance of \$2,556,627. Of the bank balance, \$278,771 was covered by federal depository insurance. Of the remaining balance, \$2,287,856 was covered by collateral held under the pooling method. At June 30, 2021, the District's petty cash fund totaled \$200.

2. Investments

At June 30, 2021, the Southeast Brunswick Sanitary District had \$1,613,017 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The District does not have a formal investment policy or any policy regarding credit risk. The District's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor's and AAAM-mf by Moody's Investors Service as of June 30, 2021.

3. Receivables- Allowances for Doubtful Accounts

The amounts presented in the Statement of Net Position are shown below:

| | |
|--------------------------------|--------------------|
| | Enterprise Fund |
| Sales Tax Receivable | \$ 10,596 |
| Sewer Charges Receivable (Net) | 171,015 |
| Total | <u>\$ 181,611</u> |

4. Capital Assets

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

| | Beginning Balances | Increases | Decreases | Ending Balances |
|--|-----------------------|-------------------|-------------|----------------------|
| Business-type activities | | | | |
| Sewer Fund | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 77,603 | \$ - | \$ - | \$ 77,603 |
| Construction in Progress | - | - | - | - |
| Total capital assets not being depreciated | <u>77,603</u> | <u>-</u> | <u>-</u> | <u>77,603</u> |
| Capital assets being depreciated: | | | | |
| Furniture and Equipment | 439,931 | 6,498 | - | 446,429 |
| Plant, Buildings, & Sewer Systems | 19,463,517 | 158,353 | - | 19,621,870 |
| Total capital assets being depreciated | <u>19,903,448</u> | <u>164,851</u> | <u>-</u> | <u>20,068,299</u> |
| Less accumulated depreciation for: | | | | |
| Furniture and Equipment | 320,839 | 28,037 | - | 348,876 |
| Plant, Buildings, & Sewer Systems | 8,670,961 | 481,508 | - | 9,152,469 |
| Total accumulated depreciation | <u>8,991,800</u> | <u>\$ 509,545</u> | <u>\$ -</u> | <u>9,501,345</u> |
| Total capital assets being depreciated, net | <u>10,911,648</u> | | | <u>10,566,954</u> |
| Sewer fund capital assets, net | <u>10,989,251</u> | | | <u>10,644,557</u> |
| Business-type activities capital assets, net | <u>\$ 10,989,251</u> | | | <u>\$ 10,644,557</u> |

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. Southeast Brunswick Sanitary 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.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The District employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The District's contractually required contribution rate for the year ended June 30, 2021, was 16.050% of compensation for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from Southeast Brunswick Sanitary District were \$45,568 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 benefits 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 \$132,931 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The District's proportion of the net pension liability was based on a projection of the District's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2020 (measurement date), the District's proportion was 0.00372%, which was an increase of 0.00022% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the District recognized pension expense of \$82,707. 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 | \$ 16,787 | \$ - |
| Change of assumptions | 9,893 | - |
| Net difference between projected and actual earnings on pension plan investments | 18,707 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 33,610 | - |
| District contributions subsequent to the measurement date | 45,568 | - |
| Total | <u>\$ 124,565</u> | <u>\$ -</u> |

\$45,568 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 | \$ | 28,070 |
| 2023 | | 28,325 |
| 2024 | | 17,066 |
| 2025 | | 5,536 |
| 2026 | | - |
| Thereafter | | - |

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

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

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real</u> |
|----------------------|--------------------------|--------------------------------|
| Fixed Income | 29.0% | 1.4% |
| Global Equity | 42.0% | 5.3% |
| Real Estate | 8.0% | 4.3% |
| Alternatives | 8.0% | 8.9% |
| Credit | 7.0% | 6.0% |
| Inflation Protection | 6.0% | 4.0% |
| Total | <u>100.0%</u> | |

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 | Discount Rate | 1% Increase |
|---|--------------------|----------------------|--------------------|
| | (6.00%) | (7.00%) | (8.00%) |
| District's proportionate share of the net pension liability (asset) | \$ 269,703 | \$ 132,931 | \$ 19,264 |

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

2. Deferred Outflows and Inflows of Resources

The District has two deferred outflow of resources. Deferred outflows of resources is comprised of the following:

| Source | Amount |
|--|-------------------|
| Contributions to pension plan in current fiscal year | \$ 45,568 |
| Pension Deferrals | 78,997 |
| Total | <u>\$ 124,565</u> |

3. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the District obtains general liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and public officials' liability in excess of \$1,000,000; property in excess of \$500,000 and \$1,000,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The District carries flood insurance through the North Carolina League of Municipalities. The single occurrence and annual aggregate flood limit is \$5,000,000.

In accordance with G.S. 159-29, the District's employees that have access to \$100 or more at any given time of the District's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000 and any remaining employees that have access to funds are bonded under a blanket bond for \$5,000.

4. Claims, Judgments and Contingent Liabilities

As of the date of the audit report, the District was not involved in any civil or legal actions which in the opinion of management and the District's attorney, would have a material adverse effect on the District's financial position.

5. Long-Term Obligations

a. Installment Purchase

In September 12, 2008, the District entered into a \$1,300,000 direct placement contract to finance capital improvements to the District's effluent system. The property is pledged as collateral for the debt while the debt is outstanding. The financing contract requires quarterly payments beginning in the fiscal year 2009, with an interest rate of 3.707 percent. In the event of default, the lender may take any one or more of the following steps: 1. declare the whole unpaid principal balance of installment payments due and thereafter to become at once due and payable; 2. exercise its rights as a secured party under the Uniform Commercial Code of the State, as a beneficiary under the Deed of Trust, with or without terminating the agreement, excluding the District from possession, selling or leasing the mortgaged property for the account of the District; or 3. proceed by appropriate court action to enforce performance by the District of the applicable covenants of this Agreement or to recover for the breach thereof.

Annual debt service payments of the installment purchase as of June 30, 2021. including \$9,036 of interest, are as follows:

| Year ending June 30 | Business-Type Activities | |
|---------------------|--------------------------|----------|
| | Principal | Interest |
| 2022 | 86,667 | 6,024 |
| 2023 | 86,667 | 2,811 |
| 2024 | 21,666 | 201 |
| 2025 | - | - |
| 2026 | - | - |
| 2027-2031 | - | - |
| Total | \$ 195,000 | \$ 9,036 |

b. General Obligation Indebtedness

The District's general obligation bonds were issued to finance the construction of facilities used in the operations of the sewer system and which will be retired by its resources are reported as long-term debt in the Sewer Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the District. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2021, are comprised of the following individual issues:

General Obligation Bonds

General Obligation Sanitary bonds due in annual principal payments ranging from \$14,000 to \$56,000, plus interest at 4.75 percent through June 2038.

| Year ending June 30 | Business-Type Activities | |
|---------------------|--------------------------|------------|
| | Principal | Interest |
| 2022 | 33,500 | 35,031 |
| 2023 | 34,000 | 33,440 |
| 2024 | 35,000 | 31,825 |
| 2025 | 36,000.00 | 30,163 |
| 2026 | 37,000.00 | 28,453 |
| 2027-2031 | 204,000.00 | 114,831 |
| 2032-2036 | 248,000.00 | 62,225 |
| 2037-2038 | 110,000.00 | 7,885 |
| Total | \$ 737,500 | \$ 343,853 |

c. Revenue Bonds

| | |
|--|------------------|
| Sewer System Revenue bonds, Series 1999A, due in annual principal payments ranging from \$12,500 to \$50,000, plus interest at 4.75 percent through June 2038. | <u>722,500</u> |
| Sewer System Revenue bonds, Series 1999B, due in annual principal payments ranging from \$22,000 to \$88,000, plus interest at 4.75 percent through June 2038. | <u>1,200,500</u> |
| Sewer Revenue bonds, Series 2007, due in annual principal payments ranging from \$9,201 to \$44,863, plus interest at 4.375 percent through June 2047. | <u>718,737</u> |
| Sewer Revenue bonds, Series 2012, due in annual principal payments ranging from \$11,000 to \$36,000, plus interest at 3 percent through June 2051. | <u>711,000</u> |

Future Payments of the revenue bonds are as follows:

| Year ended June 30 | Business-Type Activities | |
|--------------------|--------------------------|---------------------|
| | Principal | Interest |
| 2022 | 115,381 | 144,117 |
| 2023 | 120,554 | 138,957 |
| 2024 | 125,257 | 133,553 |
| 2025 | 129,490 | 127,946 |
| 2026 | 135,255 | 122,141 |
| 2027-2031 | 747,976 | 515,711 |
| 2032-2036 | 870,800 | 336,680 |
| 2037-2041 | 555,552 | 151,882 |
| 2041-2046 | 341,643 | 74,587 |
| 2047-2051 | 210,829 | 17,261 |
| Total | <u>\$ 3,352,737</u> | <u>\$ 1,762,835</u> |

The District has been in compliance with the covenants as to rates, fees, rentals, and charges in Section 704 of the Bond Order, authorizing the issuance of the Water and Sewer Revenue Bonds, Series 1999, since its adoption. Section 704(a) 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:

| | |
|--|------------------|
| Operating Revenues | \$ 2,317,506 |
| Operating Expenses* | <u>1,437,339</u> |
| Operating Income | \$ 880,167 |
| Nonoperating revenues (expenses)** | <u>(39,878)</u> |
| Income available for debt service | \$ 920,045 |
| Debt service, principal and interest paid (Revenue Bonds Only) | \$ 260,843 |
| Debt service coverage ratio | 352.72% |

* Per rate covenants, this does not include the depreciation expense of \$509,545

**Per rate covenants, this does not include revenue bond interest paid of \$149,107

The District has pledged future sewer customer revenues, net of specified operating expenses, to repay \$4,285,237 in sewer system revenue bonds issued from February 1999 through March 2012. Proceeds from the bonds provided financing for various sewer treatment facilities. The bonds are payable solely from sewer customer net revenues and are payable through 2051. The total principal and interest remaining to be paid on the bonds is \$5,115,572. Principal and interest paid for the current year was \$260,843.

d. Changes in Long-Term Liabilities

| | Balance | Increases | Decreases | Balance | Current Portion |
|---|---------------------|------------------|-------------------|---------------------|-------------------|
| Business-type activities | | | | | |
| General obligation sanitary bonds | \$ 769,500 | \$ - | \$ 32,000 | \$ 737,500 | \$ 32,000 |
| Sewer system revenue bonds, Series 1999A | 751,500 | - | 29,000 | 722,500 | 29,000 |
| Sewer system revenue bonds, Series 1999B | 1,253,500 | - | 53,000 | 1,200,500 | 53,000 |
| Sewer revenue bonds, Series 2007 | 733,473 | - | 14,736 | 718,737 | 14,737 |
| Sewer revenue bonds, Series 2012 | 726,000 | - | 15,000 | 711,000 | 15,000 |
| Direct Placement Installment Purchase Agreement | 281,667 | - | 86,667 | 195,000 | 86,667 |
| Net Pension Liability | 95,582 | 37,349 | - | 132,931 | - |
| Compensated absences | 29,424 | 2,244 | - | 31,668 | 7,917 |
| Business-type activity long-term liability | <u>\$ 4,640,646</u> | <u>\$ 39,593</u> | <u>\$ 230,403</u> | <u>\$ 4,449,836</u> | <u>\$ 238,321</u> |

C. Net Investment in Capital Assets

| | |
|----------------------------------|--------------------------------|
| Capital Assets | Business-type \$ 10,644,557 |
| less: Long-term Debt | 4,285,235 |
| Net Investment in Capital Assets | <u>\$ 6,359,322</u> |

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

V. Significant Effects of Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through October 22, 2021, the date the financial statements were available to be issued. No important events were noted.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule of Contributions - Local Government Employees' Retirement System

**Southeast Brunswick Sanitary District
Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Five Fiscal Years ***

| Local Government Employees' Retirement System | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| District's proportion of the net pension liability (asset) (%) | 0.00372% | 0.00350% | 0.00199% | 0.00234% | 0.00218% |
| District's proportion of the net pension liability (asset) (\$) | 132,931 | 95,582 | 47,210 | 35,749 | 46,267 |
| District's covered payroll | 274,094 | 232,121 | 255,436 | 234,687 | 227,960 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 48.50% | 41.18% | 18.48% | 15.23% | 20.30% |
| Plan fiduciary net position as a percentage of the total pension liability** | 91.63% | 94.18% | 91.47% | 98.09% | 99.07% |

*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.

**Southeast Brunswick Sanitary District
Schedule of Contributions
Required Supplementary Information
Last Five Fiscal Years**

Local Government Employees' Retirement System

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|------------------------------------|--------------------|--------------------|--------------------|--------------------|
| Contractually required contribution | \$ 45,568 | \$ 41,741 | \$ 32,311 | \$ 34,688 | \$ 29,811 |
| Contributions in relation to the contractually required contribution | 45,568 | 41,471 | 32,311 | 34,688 | 29,811 |
| Contribution deficiency (excess) | <u><u> </u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |
| District's covered payroll | \$ 283,912 | \$ 274,094 | \$ 232,121 | \$ 255,436 | \$ 234,687 |
| Contributions as a percentage of covered payroll | 16.05% | 15.23% | 13.92% | 13.58% | 12.70% |

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

This section contains additional statements required by the Local Government Commission in North Carolina.

Southeast Brunswick Sanitary District, North Carolina
Schedule of Revenue and Expenditures
Budget & Actual - (Non - GAAP)

| | 2021 | | | 2020 |
|--------------------------------|---------------------|---------------------|------------------------------------|---------------------|
| | Final Budget | Actual | Variance Positive (Negative) | Actual |
| Revenues | | | | |
| Operating Revenues: | | | | |
| Sewer Charges | \$ 1,653,340 | \$ 1,807,662 | \$ 154,322 | \$ 1,701,027 |
| Grinder Pump Installation Fees | 126,900 | 105,750 | - | - |
| Ad Valorem Taxes | - | - | - | - |
| Tap and Impact Fees | 256,450 | 404,094 | 147,644 | 233,940 |
| Total Operating Revenues | <u>2,036,690</u> | <u>2,317,506</u> | <u>301,966</u> | <u>1,934,967</u> |
| Non-Operating Revenues: | | | | |
| Bad Debt Recovery | - | - | - | - |
| Interest Earned | 1,700 | 1,688 | (12) | 22,150 |
| FEMA | - | - | - | - |
| Insurance Claim | - | - | - | 31,098 |
| Miscellaneous Revenues | 1,200 | 3,522 | 2,322 | 3,218 |
| Sales Tax Refunds | 13,800 | - | (13,800) | - |
| Total Non-Operating Revenues | <u>16,700</u> | <u>5,210</u> | <u>(11,490)</u> | <u>56,466</u> |
| Total Revenues | <u>2,053,390</u> | <u>2,322,716</u> | <u>290,476</u> | <u>1,991,433</u> |
| Expenditures | | | | |
| Operating Expenditures | | | | |
| Administration: | | | | |
| Board Stipends | 21,000 | 15,900 | 5,100 | 16,050 |
| Advertising | 250 | 76 | 174 | 92 |
| Debt Service Reserve | 5,000 | - | 5,000 | - |
| Dues and Subscriptions | 1,670 | 1,732 | (62) | 1,722 |
| Insurance and Bonds | 29,375 | 30,463 | (1,088) | 26,440 |
| Interest Expense - State Loans | - | - | - | 0 |
| Interest Expense - USDA | 185,595 | 185,116 | 479 | 191,398 |
| Maintenance | 35,930 | 25,840 | 10,090 | 22,016 |
| Office Supplies and Postage | 11,000 | 10,922 | 78 | 10,389 |
| Other Expenditures | 4,500 | 3,555 | 945 | 6,290 |
| Principal Maturities - State | - | - | - | - |
| Principal Maturities - USDA | 143,800 | 143,736 | 64 | 138,119 |
| Loan/Banks | 86,667 | 86,667 | - | 86,666 |
| Loan/Banks - Interest | 9,236 | 9,079 | 157 | 12,292 |
| Professional Services | 44,000 | 31,136 | 12,864 | 32,846 |
| Salaries and Fringe Benefits | 485,148 | 480,972 | 4,176 | 483,468 |
| Supplies & Printing | 9,800 | 8,841 | 959 | 7,969 |
| Telephone and Utilities | 16,600 | 13,962 | 2,638 | 14,615 |
| Travel and Training | 10,500 | 7,019 | 3,481 | 4,464 |
| Total Administration | <u>\$ 1,100,071</u> | <u>\$ 1,055,016</u> | <u>\$ 45,055</u> | <u>\$ 1,054,836</u> |

Southeast Brunswick Sanitary District, North Carolina
Schedule of Revenue and Expenditures
Budget & Actual - (Non - GAAP)

| | 2021 | | | 2020 |
|--|------------------|-------------------|------------------------------------|-------------------|
| | Final Budget | Actual | Variance Positive (Negative) | Actual |
| Sewer Operations: | | | | |
| Advertising | \$ 1,000 | \$ - | \$ 1,000 | \$ - |
| Regency Impact Fees Paid | - | - | | - |
| Dues and Subscriptions | 2,210 | 2,170 | 40 | 2,170 |
| Insurance and Bonds | 2,100 | 2,059 | 41 | 2,102 |
| Maintenance and Repair | 289,626 | 170,165 | 119,461 | 144,188 |
| Grinder Installation | 126,900 | 98,790 | 28,110 | - |
| Miscellaneous | 1,000 | - | 1,000 | - |
| Supplies and Chemicals | 26,000 | 20,049 | 5,951 | 15,471 |
| Sludge and Solid Waste Removal | 53,650 | 53,916 | (266) | 48,004 |
| Contracted and Other Professional Services | 129,250 | 118,063 | 11,187 | 60,183 |
| Telephone and Utilities | 142,950 | 139,424 | 3,526 | 127,723 |
| Water Technology & Control | 169,900 | 162,904 | 6,996 | 159,710 |
| Total Sewer Operations | <u>944,586</u> | <u>767,540</u> | <u>177,046</u> | <u>559,551</u> |
| Capital Outlay: | | | | |
| Equipment & Software | 172,000 | 164,851 | 7,149 | 238,879 |
| Total Capital Outlay | <u>172,000</u> | <u>164,851</u> | <u>7,149</u> | <u>238,879</u> |
| Total Expenditures | <u>2,216,657</u> | <u>1,987,407</u> | <u>229,250</u> | <u>1,853,266</u> |
| Revenue Over (Under) Expenditures | <u>(163,267)</u> | <u>335,309</u> | <u>519,726</u> | <u>138,167</u> |
| Other Financing Sources (Uses): | | | | |
| Appropriated Fund Balance | 163,267 | - | (163,267) | - |
| Transfer (to) from Debt Service Reserve | | - | - | - |
| Settlement - Refund Impact Fees | | - | - | - |
| Total Other Sources (Uses) | <u>163,267</u> | <u>-</u> | <u>(163,267)</u> | <u>-</u> |
| Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | <u>\$ -</u> | <u>\$ 335,309</u> | <u>\$ 356,459</u> | <u>\$ 138,167</u> |
| Reconciliation from Budgetary Basis (modified accrual) to Full Accrual | | | | |
| Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | | <u>\$ 335,309</u> | | <u>\$ 138,167</u> |
| Reconciling Items: | | | | |
| Capital Outlay | | \$ 164,851 | | \$ 104,364 |
| Depreciation | | (509,545) | | (489,439) |
| Increase in accrued vacation pay | | (2,244) | | (8,574) |
| Increase in deferred outflows of resources - pensions | | 212 | | 15,439 |
| Increase in net pension liability | | (37,349) | | (11,461) |
| decrease in deferred inflows of resources - pensions | | - | | 768 |
| Loss on Asset Disposal | | - | | - |
| Principal Payments on Debt | | 230,403 | | 267,559 |
| Total Reconciling Items | | <u>(153,672)</u> | | <u>(121,344)</u> |
| Change in net position | | <u>\$ 181,637</u> | | <u>\$ 16,823</u> |

COMPLIANCE SECTION



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Independent Auditors' Report

To the Board of Commissioners
Southport, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Southeast Brunswick Sanitary District, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated October 22, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Southeast Brunswick Sanitary District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southeast Brunswick Sanitary District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. See finding 2021-1.

Members

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Compliance and Other Matters

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

Southeast Brunswick Sanitary District's Response to Findings

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

Purpose of this Report

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

Thompson, Price, Scott, Adams & Co., P.A.

Thompson, Price, Scott, Adams & Co., P.A.
Whiteville, North Carolina
October 22, 2021

Southeast Brunswick Sanitary District
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2021

Section I. Summary of Auditors' Results

Type of Auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness (es) identified? ___Yes X No

- Significant Deficiency(s) identified
that are not considered to be
material weaknesses? X Yes ___None reported

- Noncompliance material to financial statements noted ___Yes X No

Southeast Brunswick Sanitary District
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2021

Section II. Financial Statement Findings

SIGNIFICANT DEFICIENCY

2021-1 Segregation of Duties

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

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

Effect: Transactions could be mishandled.

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

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2020-1

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

Views of responsible officials and planned corrective actions: The District agrees with this finding.

SOUTHEAST BRUNSWICK SANITARY DISTRICT

Corrective Action Plan
For the Year Ended June 30, 2021

Section II. Financial Statement Findings

SIGNIFICANT DEFICIENCY

2021-1 Segregation of Duties

Name of contact person: Robert Smith, Chairman

Corrective Action: Duties have been segregated to the most viable extent possible given the limited size of staff.

The Board will continue to participate in providing additional controls and will look for opportunities it can participate to further mitigate the risk posed by lack of segregation of duties. However, the controls to date have effectively prevented any issues, and additional staff is not justified.

Proposed Completion Date: The Board will continue to work on implementing additional internal controls on an on-going basis.

Southeast Brunswick Sanitary District
Summary Schedule and Prior Year Findings
For the Year Ended June 30, 2021

Finding: 2020-1

Status: Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of separation. The governing board is becoming more involved in providing some of these controls.

Finding: 2019-1

Status: Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of separation. The governing board is becoming more involved in providing some of these controls.

Finding: 2018-1

Status: Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of separation. The governing board is becoming more involved in providing some of these controls.