



LOWER CAPE FEAR WATER AND SEWER AUTHORITY

ANNUAL FINANCIAL REPORT  
For the Year Ended June 30, 2022



**LOWER CAPE FEAR WATER & SEWER AUTHORITY  
1107 NEW POINTE BLVD., SUITE 17  
LELAND, NORTH CAROLINA 28451**

**AUTHORITY BOARD OF DIRECTORS**

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LOWER CAPE FEAR WATER AND SEWER AUTHORITY  
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June 30, 2022

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## FINANCIAL SECTION



Thompson, Price, Scott, Adams & Co., P.A.  
4024 Oleander Drive Suite 3  
Wilmington, North Carolina 28403  
Telephone (910) 791-4872  
Fax (910) 239-8294

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## Independent Auditor's Report

To the Chairman of the Board  
and Members of the Board of Directors  
Lower Cape Fear Water and Sewer Authority  
Leland, North Carolina

### **Report on the Audit of Financial Statements**

#### ***Opinions***

We have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Lower Cape Fear Water and Sewer Authority as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Lower Cape Fear Water and Sewer Authority's basic financial statements as listed in the table of contents.

In our opinion, based upon our audit the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the, the business-type activities, each major fund, and the aggregate remaining fund information of Lower Cape Fear Water and Sewer Authority as of June 30, 2022, and the respective changes in financial position, and cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Lower Cape Fear Water and Sewer Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Audit of 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raises substantial doubt about the Lower Cape Fear Water and Sewer Authority's ability to continue as a going concern for the twelve months

beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect material statement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS we

- exercised professional judgement and maintained professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Lower Cape Fear Water and Sewer Authority's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lower Cape Fear Water and Sewer Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lower Cape Fear Water and Sewer Authority's basic financial statements. The combining and individual fund financial statements, budgetary schedules, other schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 combining and individual fund financial statements, budgetary schedules, other 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*

*October 18, 2022*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## Management's Discussion and Analysis

As management of the Lower Cape Fear Water and Sewer Authority (the "Authority"), we offer readers of the Lower Cape Fear Water and Sewer Authority's financial statements this narrative overview and analysis of the financial activities of the Lower Cape Fear Water and Sewer Authority for the fiscal year ended June 30, 2022. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative.

### Financial Highlights

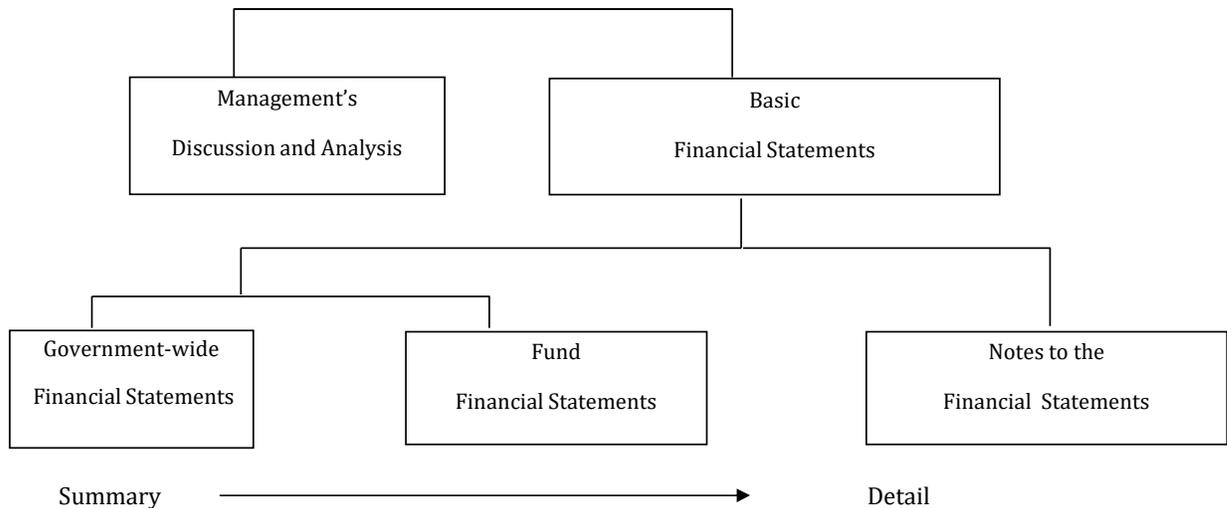
- The assets and deferred outflows of resources of the Lower Cape Fear Water and Sewer Authority exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$25,989,271 (net position).
- The Authority's total net position increased by \$1,295,506.
- As of the close of the current fiscal year, the Lower Cape Fear Water and Sewer Authority reported ending fund balances as follows:
 

Renewal and Replacement Fund	\$	192,454
Right of Way Fund	\$	281,426
System Development Charge Fund	\$	14
Enterprise Capital Project Fund	\$	289,737
- The Lower Cape Fear Water and Sewer Authority's total debt decreased by \$1,803,043 during the current fiscal year due to normal principal payments.

### Overview of the Financial Statements

The Authority's primary mission is to provide raw water services to various customers in the Lower Cape Fear region. The Authority does not provide other general purpose government services or programs. As such, the Authority is considered to be, and therefore presents the Authority's financial report, as a stand-alone enterprise fund.

**Required Components of Annual Financial Report  
Figure 1**



## **Basic Financial Statements**

The first three documents (Exhibits A, B, and C) are the **basic financial statements**. They provide both short and long-term information concerning the Authority's financial status. The next section is the **notes** that provide a narrative and data explanation regarding selected financial statement presentations. The next five documents (Schedules 1-5) are **supplemental information** that focus on individual funds: one enterprise fund and four project funds.

## **Government-Wide Financials Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Authority'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 Authority's financial status as a whole.

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

The government-wide statements show business-type activities, the only type of activities the Authority has. Business-type activities are those that the Authority charges customers to provide. These include water services offered by the Lower Cape Fear Water and Sewer Authority.

## **Fund Financial Statements**

The fund financial statements provide a more detailed look at the Authority'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 Lower Cape Fear Water and Sewer Authority, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Authority's budget ordinance. All of the funds of the Lower Cape Fear Water and Sewer Authority are proprietary funds.

**Proprietary Funds.** Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Lower Cape Fear Water and Sewer Authority uses enterprise funds to account for its water activity.

**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.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Lower Cape Fear Water and Sewer Authority's progress in funding its obligation to provide pension benefits to its employees.

**Financial Analysis**

**Lower Cape Fear Water and Sewer Authority's Net Position  
 Figure 2**

	Business-Type Activities	
	2022	2021
<b>Assets:</b>		
Current and other assets	\$ 4,019,986	\$ 3,279,953
Capital assets	41,029,471	41,884,611
Total assets	<u>45,049,457</u>	<u>45,164,564</u>
Deferred outflows of resources	<u>69,607</u>	<u>46,823</u>
<b>Liabilities:</b>		
Current liabilities	1,696,564	2,005,816
Long-term liabilities	17,415,043	18,511,806
Total liabilities	<u>19,111,607</u>	<u>20,517,622</u>
Deferred inflows of resources	<u>18,186</u>	<u>-</u>
<b>Net position:</b>		
Net investment in capital assets	22,530,057	21,582,154
Unrestricted	3,459,214	3,111,611
Total net position	<u>\$ 25,989,271</u>	<u>\$ 24,693,765</u>

As noted earlier, net position may serve over time as one useful indicator of the Authority's financial condition. The assets and deferred outflows of resources of the Authority exceeded liabilities and deferred inflows by \$25,989,271 as of June 30, 2022. The Authority's net position increased by \$1,295,506 for the fiscal year ended June 30, 2022. However, the largest portion of net position \$22,530,057 (86.96%) reflects the Authority's net investment in capital assets (e.g. land, buildings, machinery and equipment). The Lower Cape Fear Water and Sewer Authority uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the Authority'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. The remaining balance of \$3,459,214 (13.31%) is unrestricted.

Several particular aspects of the Authority's financial operations positively influenced the total net position:

- Increase in charges for services.

**Lower Cape Fear Water and Sewer Authority's Changes in Net Position**  
**Figure 3**

	Business-Type Activities	
	2022	2021
<b>Revenues:</b>		
Charges for Services	\$ 7,472,215	\$ 4,500,161
Other operating	114,314	55,833
Investment earnings	765	2,696
Other non-operating	19,683	1,133,995
Total revenues	7,606,977	5,692,685
<b>Expenses:</b>		
Operations	4,483,011	3,288,424
Depreciation and amortization	1,727,437	1,658,635
Interest and fees paid	101,023	76,268
Total expenses	6,311,471	5,023,327
Increase (decrease) in net position before transfers and capital contributions	1,295,506	669,358
Increase (decrease) in net position	1,295,506	669,358
Net position, July 1	24,693,765	24,024,407
Net position, June 30	\$ 25,989,271	\$ 24,693,765

**Business-type activities:** Business-type activities increased the Authority's net position by \$1,295,506. Key element of this increase is as follows:

- Increase in charges for services.

**Capital Asset and Debt Administration**

**Capital assets.** The Lower Cape Fear Water and Sewer Authority's investment in capital assets as of June 30, 2022, totals \$41,029,471 (net of accumulated depreciation). These assets include buildings, land, equipment, vehicles, and water system improvements.

**Lower Cape Fear Water and Sewer Authority's Capital Assets**  
**(net of depreciation)**  
**Figure 4**

	2022	2021
Land	\$ 882,053	\$ 882,053
Buildings	228,041	237,935
Vehicles	796,310	84,209
Equipment	520,946	465,358
Plant & distribution system	38,602,121	40,215,056
Total	\$ 41,029,471	\$ 41,884,611

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

**Long-term Debt.** As of June 30, 2022, the Authority had total bonded debt outstanding of \$18,300,000. The changes in long-term debt for the year ended June 30, 2022 was as follows:

<b>Revenue Bonds</b>		
<b>Figure 5</b>		
	2022	2021
Revenue bonds	\$ 18,300,000	\$ 19,751,443
Direct Placement		
Installment Agreement	199,414	551,014
Total	\$ 18,499,414	\$ 20,302,457

**Economic Factors and Next Year's Budgets and Rates**

- The adopted budget for fiscal year 2021-2023 illustrates an increase in customer revenues due to an increase in the raw water rate from \$0.3300 per 1,000 gallons to \$0.3600 per 1,000 gallons to provide for the required debt services through 2023.
  
- The Bladen Bluffs water treatment plant operated by Smithfield Farmland, Inc. will continue to experience increased costs as it enters into its 10th year of operations, but those costs are offset 100% by revenues received including all debt service.

**Requests for Information**

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Tim Holloman, Executive Director, Lower Cape Fear Water and Sewer Authority, 1107 New Pointe Blvd., Suite 17, Leland, NC 28451. You can also call (910)383-1919, or visit our website at [www.lcfwasa.org](http://www.lcfwasa.org) for more information.

## BASIC FINANCIAL STATEMENTS

**Lower Cape Fear Water and Sewer Authority**  
**Statement of Fund Net Position**  
**June 30, 2022**

	<b>Major Enterprise Fund</b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 3,397,285
Accounts receivable, customers (net)	508,387
Accounts receivable, other	114,314
Total current assets	4,019,986
Non-current assets:	
Capital assets:	
Land and construction in progress	882,053
Other capital assets, net of depreciation	40,147,418
Total capital assets	41,029,471
Total assets	45,049,457
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension Deferrals	55,450
Charge on refunding	14,157
Total deferred outflows of resources	69,607
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	584,650
Compensated absences - current	2,500
Current portion of long-term debt	1,109,414
Total current liabilities	1,696,564
Non-current liabilities:	
Compensated absences payable	12,314
Net pension liability	12,729
Non-current portion of long-term debt	17,390,000
Total non-current liabilities	17,415,043
Total liabilities	19,111,607
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension Deferrals	18,186
Total deferred inflow of resources	18,186
<b>NET POSITION</b>	
Net investment in capital assets	22,530,057
Unrestricted	3,459,214
Total net position	\$ 25,989,271

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

**Lower Cape Fear Water and Sewer Authority**  
**Statements of Revenues, Expenses, and**  
**Changes in Fund Net Position**  
**For the Fiscal Year Ended June 30, 2022**

	<b>Major Enterprise Fund</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 7,472,215
Other operating revenue	114,314
Total operating revenues	<u>7,586,529</u>
<b>OPERATING EXPENSES</b>	
Operations and administration	4,483,011
Depreciation and amortization	1,727,437
Total operating expenses	<u>6,210,448</u>
Operating income (loss)	<u>1,376,081</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Investment earnings	765
Insurance Claim Proceeds	1,411
Interest and fees paid	(101,023)
Other non-operating revenues (expenses)	18,272
<b>Total nonoperating revenues (expenses)</b>	<u>(80,575)</u>
<b>Income (loss) before transfers and capital contributions</b>	1,295,506
Change in net position	1,295,506
Net position, beginning	<u>24,693,765</u>
Net position, ending	<u>\$ 25,989,271</u>

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

**Lower Cape Fear Water and Sewer Authority**  
**Statements of Cash Flows**  
**For The Fiscal Year Ended June 30, 2022**

	<b>Major Enterprise Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 7,375,995
Cash paid for goods and services	(3,784,138)
Cash paid to employees for services	(306,443)
Net cash provided (used) by operating activities	3,285,414
<b>Cash flows from capital and related financing activities</b>	
Acquisition of capital assets and construction	(872,297)
Principal paid on bonds and notes payable	(1,803,043)
Insurance Claim Proceeds	1,411
Other non-operating revenues	18,272
Interest and fees paid on bonds and notes	(101,023)
Net cash provided (used) by capital and related financing activities	(2,756,680)
<b>Cash flows from investing activities:</b>	
Interest on investments	765
Net cash provided	765
Net increase (decrease) in cash and cash equivalents	529,499
<b>Cash and cash equivalents:</b>	
Beginning of year, July 1	2,867,786
End of year, June 30	\$ 3,397,285
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ 1,376,081
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	1,727,437
(Increase) decrease in accounts receivable	(210,534)
Increase (decrease) in accounts payable & accrued liabilities	384,377
Increase (decrease) in net pension liability	4,153
Increase (decrease) in compensated absences	8,498
(Increase) decrease in deferred outflows of resources for pensions	(22,784)
Increase (decrease) in deferred inflows of resources for pensions	18,186
	1,909,333
Net cash provided (used) by operating activities	\$ 3,285,414

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

## NOTES TO THE FINANCIAL STATEMENTS

**Lower Cape Fear Water and Sewer Authority**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2022**

**I. Summary of Significant Accounting Policies**

The accounting policies of the Lower Cape Fear Water and Sewer Authority (the "Authority") conform to generally accepted accounting principles as applicable to governments. The Authority does not have any discretely presented component units. The following is a summary of the more significant accounting policies:

**A. Reporting Entity**

The Authority is a public authority created under applicable laws of the State of North Carolina and has constructed a pipeline system that provides raw water to counties, adjacent public utility authorities, and industrial customers in southeastern North Carolina. The Authority's current customer mix is comprised as follows:

Customers with the ability to purchase raw water at June 30, 2022:

- 2 County Governments
- 2 Industries
- 1 Government Utility Authority

The Authority is not considered to be a joint venture under generally accepted accounting principles since the customers do not retain an ongoing financial interest (i.e., an equity interest in either assets or liabilities) or responsibility. It is considered a jointly governed organization.

Under the Enabling Acts, the Authority is authorized, among other things, to: (a) acquire, lease, construct, reconstruct, improve, extend, enlarge, equip, maintain, and operate water and sewer systems located within the service area of the Authority's membership; (b) issue revenue bonds of the Authority to pay the cost of such acquisition, construction, reconstruction, improvement, extension, enlargement, or equipment; and (c) fix, revise, charge, and collect rates, fees, and charges for the use of and for the services and facilities furnished by any water and sewer system operated by the Authority. The Authority cannot levy ad valorem taxes.

The Authority is governed by a board of fourteen members, each of who is appointed for a term of three years by the respective governing bodies of each of the Authority members. Each constituent member of the Authority appoints and is represented by two Board members with the exception of Brunswick County, which appoints four members.

**B. Basis of Presentation**

*Government-wide Statements* : The business-type activities are financed in whole or in part by fees charged to external parties. All activities of the Authority are considered business-type activities.

*Fund Financial Statements* : The fund financial statements provide information about the Authority's funds. 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 contributions and investment earnings, result from non-exchange transactions or ancillary activities. The Authority has one fund category - proprietary funds.

**Proprietary Funds**

**Enterprise Fund.** Enterprise funds are used to account for those operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Authority operates as a singular enterprise fund, the Water and Sewer Fund. The Water and Sewer Fund (the operating fund) is consolidated with the Renewal and Replacement Fund, Right of Way Fund, System Development Fund, Enterprise Capital Project Fund, and Bladen Bluff Capital Project Fund.

The Enterprise Fund is considered a major fund for the year ending June 30, 2022.

**C. Measurement Focus and Basis of Accounting**

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

*Government-wide and Proprietary Fund Financial Statements.* The proprietary fund financial statements are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, donations, and similar items. 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 Authority enterprise funds are charges to customers for sales and services. The Authority 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 for enterprise funds 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. The Authority recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water system.

**D. Budgetary Data**

The Authority's budgets are adopted as required by North Carolina General Statutes. An annual budget ordinance is adopted for the Operating Fund, Renewal and Replacement Fund, Right of Way Fund, System Development Charge Fund, Enterprise Capital Project Fund, and Bladen Bluffs Capital Project Fund. All annual appropriations lapse at fiscal year end. Appropriations under project ordinances for the enterprise construction project sub funds lapse at the completion of the project. All budgets are prepared using the modified accrual basis of accounting which is consistent with the accounting system used to record transactions. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and the object level for the multi-year funds. During the year, an amendment was made to the original budget, the effects of which were not material. The budget ordinance must be adopted by June 30 of the fiscal year or the governing board must adopt an interim budget that covers the time until the annual ordinance can be adopted.

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

**1. Deposits and Investments**

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

State law [G.S. 159-30(c)] authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The Authority's investments are 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, 2022, 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**

The Authority considers all highly liquid investments with maturity of three months or less when purchased to be cash and cash equivalents.

**3. Allowances for Doubtful Accounts**

All receivables at June 30, 2022 are considered collectible.

**4. Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are of individual items of more than \$5,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the water system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement 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. The Authority has elected to capitalize those interest costs that are incurred during the construction period of general fixed assets when appropriate. Assets are depreciated on a straight-line basis over estimated useful lives, which are as follows:

	<u>Years</u>
Buildings	40
Water supply system - pipeline	40
Water supply system - equipment	25
Office equipment	16
Vehicle	5

**5. 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.

**6. 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 Authority has two items that meet this criterion, one is the expense for the refunding of water bonds and the other is pension deferrals for the 2022 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority has one item that meet the criterion for this category - pension deferrals.

**7. Long-Term Obligations**

In the government-wide financial statements, and 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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred.

### **8. Compensated Absences**

The vacation policy of the Authority provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Authority's proprietary funds, an expense and a liability for compensated leave and the salary-related payments are recorded as the leave is earned. The Authority has assumed a 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. The Authority's sick leave policy grants twelve days per year to full-time employees which can accumulate without limit, but which do not vest. As such, accumulated and non-vested sick leave is not provided in these financial statements.

### **9. Net Position/Fund Balances**

#### **Net Position**

Net position in proprietary fund financial statements is 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.

#### **Fund Balances**

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

**Nonspendable Fund Balance** - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**Restricted Fund Balance** - This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

**Committed Fund Balance** - portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Authority's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

**Assigned Fund Balance** - portion of fund balance that the Lower Cape Fear Water and Sewer Authority intends to use for specific purposes.

**Unassigned Fund Balance** - portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

### **10. Defined Benefit Cost-Sharing Plans**

For 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 Authority's employer contributions are recognized when due and the Authority 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

None.

#### 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

All the deposits of the Authority are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Authority's agents in 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 Authority, these deposits are considered to be held by the Authority'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 Authority or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Authority under the Pooling Method, the potential exists for under-collateralization, 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 Authority has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2022, the Authority's deposits had a carrying value of \$3,397,285 and a bank balance of \$3,592,764. 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.

#### 2. Receivables - Allowances for Doubtful Accounts

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 Authority, in light of historic collectability.

**3. Capital Assets**

Capital asset activity for the Authority for the year ended June 30, 2022, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Capital assets not being depreciated:</b>				
Land	\$ 882,053	\$ -	\$ -	\$ 882,053
Total capital assets not being depreciated	<u>882,053</u>	<u>-</u>	<u>-</u>	<u>882,053</u>
<b>Capital assets being depreciated:</b>				
Buildings	395,734	-	-	395,734
Vehicles	250,157	737,454	-	987,611
Equipment	605,040	134,843	-	739,883
Plant and distribution system	69,999,316	-	-	69,999,316
Total capital assets being depreciated	<u>71,250,247</u>	<u>872,297</u>	<u>-</u>	<u>72,122,544</u>
<b>Less accumulated depreciation for:</b>				
Buildings	157,799	9,893	-	167,692
Vehicles	165,948	25,353	-	191,301
Equipment	139,682	79,255	-	218,937
Plant and distribution system	29,784,260	1,612,936	-	31,397,196
Total accumulated depreciation	<u>30,247,689</u>	<u>\$ 1,727,437</u>	<u>\$ -</u>	<u>31,975,126</u>
Total capital assets being depreciated, net	<u>41,002,558</u>			<u>40,147,418</u>
<b>Business-type activity capital assets, net</b>	<u>\$ 41,884,611</u>			<u>\$ 41,029,471</u>

**B. Liabilities****1. Payables**

Accounts payable and accrued liabilities reported on the Statement of Net Position at June 30, 2022 were as follows:

	<b>Business-Type Activities</b>
Accounts and vouchers	\$ 578,527
Accrued interest payable	6,123
Total accounts payable and accrued liabilities	<u>\$ 584,650</u>

**2. Pension Plan Obligations****a. Local Government Employees' Retirement System**

*Plan Description.* The Authority 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 Authority 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 (ACFR) for the State of North Carolina. The State's ACFR 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](http://www.osc.nc.gov).

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Authority employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Authority's contractually required contribution rate for the year ended June 30, 2022, was 11.67% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Authority were \$18,668 for the year ended June 30, 2022.

*Refunds of Contributions* – Authority 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, 2022, the Authority reported an liability of \$12,729 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 Authority's proportion of the net pension liability was based on a projection of the Authority'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, 2022, the Authority's proportion was 0.00083%, which was a increase of 0.00059% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2022, the Authority recognized pension expense of \$18,223. At June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 4,050	\$ -
Change in assumptions	7,997	-
Net difference between projected and actual earnings on pension plan investments	-	18,186
Changes in proportion and differences between Authority's contributions and proportionate share of contributions	24,735	-
Authority's contributions subsequent to the measurement date	18,668	-
Total	<u>\$ 55,450</u>	<u>\$ 18,186</u>

\$18,668 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as an increase 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:

<u>Year Ended June 30</u>	
2023	11,245
2024	8,271
2025	4,644
2026	(5,564)
Thereafter	-
	<u>\$ 18,596</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2020 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 position 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, 2020 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 Rate of Return</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	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2020 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

*Discount rate.* The discount rate used to measure the total pension liability was 6.50%. 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 Authority's proportionate share of the net pension liability to changes in the discount rate.* The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 6.50 percent, as well as what the Authority'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 (5.50 percent) or one percentage point higher (7.50 percent) than the current rate:

	<b>1 % Decrease (5.50%)</b>	<b>Discount Rate (6.50%)</b>	<b>1% Increase (7.50%)</b>
Authority's proportionate share of the net pension	\$49,412	\$12,729	(\$17,460)

*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 (ACFR) for the State of North Carolina.

**b. Supplemental Retirement Income Plan**

*Plan Description.* The Authority contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to personnel employed by the Authority. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend certain benefit provisions to the North Carolina General Assembly. The Plan is included in the Annual Comprehensive Financial Report (ACFR) for the State of North Carolina. The State's ACFR includes the pension trust fund financial statements for the Internal Revenue code Section 401(k) Plan that includes the Plan. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410 or by calling (919)981-5454.

*Funding Policy.* Article 12E of G.S. Chapter 143 requires the Authority to contribute each month an amount equal to three percent of each participant's salary, and all amounts contributed are vested immediately. Also, the participants may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2022 were \$12,100.

**c. Other Employment Benefit**

The Authority has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Government Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Authority, the Authority does not determine the number of eligible participants. The Authority has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Authority considers these contributions to be immaterial.

**3. Deferred Outflows and Inflows of Resources**

Deferred outflows of resources at year-end is comprised of the following:

	<u>Amount</u>
Pension deferrals	\$ 55,450
Charge on bond refunding	14,157
Total	<u>\$ 69,607</u>

Deferred inflows of resources at year-end is comprised of the following:

Pension deferrals	\$ 18,186
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**4. Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial coverage for all risks of loss, to include business auto (\$3,000,000 limit), real and personal property (\$26,397,125 limit), general liability (\$3,000,000 per occurrence), and worker's compensation (statutory). There have been no subsequent reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. The Authority does not carry flood insurance. In accordance with G.S. 159-29 the Authority's employees that have access to more than \$100 or more at any given time of the Authority's funds are performance bonded through a commercial surety bond. The Finance Officer is individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$50,000. In addition, the Authority carries Government Crime coverage for the loss of or damage to money, securities, and other property resulting directly from theft, forgery, or alteration committed by an employee inside and outside the premises (\$100,000 per occurrence).

**5. Claims, Judgments and Contingent Liabilities**

At June 30, 2022, the Authority was not a defendant to any lawsuits.

**6. Long Term Obligations**

The Authority has no authority to issue general obligation debt under its enabling legislation. The Authority is able to issue revenue bonds in such amounts as may be financially feasible without statutory limits. The following is the composition of long-term debt as of June 30, 2022.

a. Notes Payable

In March 2019, the Authority entered into a three year direct placement loan of \$1,506,438 with New Hanover County for the a relocation capital project under US HWY 421. The contract requires principal payments beginning in the fiscal year of 2020 at an annual interest rate of 2 percent. Matures in May 2023.

\$ 199,414

**b. Revenue Bonds**

\$24,665,000 Special Facility Revenue Bonds, Series 2010, issued for the construction of a surface water treatment plant; due in annual installments ranging from \$455,000 to \$2,050,000 through December 1, 2024; interest payable monthly at a variable rate. All payments are made directly by Smithfield Farmland Corporation, although the liability is held in the name of The Authority.

	18,300,000
Total long-term debt	18,499,414
Less: Current portion	1,109,414
	\$ 17,390,000

**c. Changes in General Long-Term Liabilities**

The changes in the long-term debt for the year ending June 30, 2022 are as follows:

	Balance 7/1/2021	Additions	Retirements	Balance 6/30/2022	Current Portion
Revenue bonds	\$ 19,751,443	\$ -	\$ 1,451,443	\$ 18,300,000	\$ 910,000
Direct Placement Installment agreements	551,014	-	351,600	199,414	199,414
Net pension liability	8,576	4,153	-	12,729	-
Compensated absences	6,316	10,505	2,007	14,814	2,500
Total	\$ 20,317,349	\$ 14,658	\$ 1,805,050	\$ 18,526,957	\$ 1,111,914

The future payments of the revenue bonds for the years ending after June 30, 2022 are as follows:

Year Ending June 30	Business-Type Activities	
	Principal	Interest
2023	\$ 1,109,414	\$ 16,798
2024	970,000	12,173
2025	1,035,000	11,494
2026	1,115,000	10,770
2027	1,190,000	9,989
2028-2032	7,325,000	36,218
2033-2037	5,755,000	8,757
Total	\$ 18,499,414	\$ 106,199

**d. Special Facility Revenue Bonds**

In March 2010, the Authority issued \$24,665,000 in special facility revenue bonds, per the Treated Water Supply Agreement with the Smithfield Farmland Corporation (the Agreement) dated December 18, 2009, for the construction of a water intake at Bladen Bluff on the Cape Fear River, a four million gallons per day treatment plant and necessary pipelines and appurtenant facilities. Per the Agreement, Smithfield Farmland Corporation will make payments directly to the bond agent in the amount of any principal, interest, or additional bond expenses, when due and payable. Smithfield Farmland Corporation will continue to make such payments so long as Smithfield Farmland Corporation is the sole user of the Bladen Bluffs Project. As per the Agreement, Smithfield Farmland Corporation has provided a letter of credit through Robo Bank sufficient for issuance of the Bonds. The Authority has recognize the value of these principal and interest payment as a nonoperating revenue called Treated Water Supply Agreement (Smithfield Farmland). This revenue is offset by interest expense and principal payments decreasing the balance of the outstanding bonds.

e. Revenue Bond Covenants

The Authority has been in compliance with the covenants as to rates, fees, rentals, and charges in Section 5 of the Bond Orders, authorizing the issuance of the 2012 Enterprise System Revenue Refunding bonds, the 2010 Combined Enterprise Revenue Bonds, and the 2010 Special Facility Revenue Bonds, since the adoption of each bond order. Section 5.01 Bond Orders of the 2012 Enterprise System Revenue Refunding bonds, and 2010 Combined Enterprise Revenue Bonds, require the debt service coverage to be no less than 110%. Section 5.01 of the Bond Order of the 2010 Special Facility Revenue Bonds, requires the debt service coverage to be no less than 100%. The debt service coverage ratio calculation for the year ended June 30, 2022, is as follows:

Operating revenues	\$ 7,586,529
Operating expenses *	4,483,011
Operating income	<u>3,103,518</u>
Non-operating revenues (expenses)	(80,575)
Income available for debt service	<u><u>\$ 3,022,943</u></u>
Debt service, principal and interest paid (Revenue bonds only)	<u>\$ 1,511,752</u>
Debt service coverage ratio	200%

\*Per rate covenants, this does not include the depreciation and amortization expenses of \$1,727,437.

\*\*Per rate covenants, this does not include revenue bond interest of \$60,309.

The Authority has pledged future water customer revenues, net of specified operating expenses, to repay \$5,507,451 in 2012 Enterprise System Revenue Refunding bonds, \$3,000,000 in 2010 Combined Enterprise Revenue Bond, and \$24,665,000 in 2010 Special Facility Revenue Bonds. Proceeds from the bonds provided financing for water system improvements and the construction of a surface water treatment plant. The 2012 Enterprise System Revenue Refunding Bonds, and the 2010 Combined Enterprise Revenue Bonds, are payable solely from water customer net revenues and are payable through 2022. The total principal and interest remaining to be paid on these bonds is \$18,402,211. Principal and interest paid for the current year and total customer net revenues were \$1,005,504 and \$1,076,067 respectively. In the event that the Treated Water Supply Agreement is not met, the Special Facility Revenue Bonds are payable from water customer net revenues through 2024. The total principal and interest remaining to be paid on the bonds is \$18,402,211. Principal and interest paid for the current year were \$1,511,752. Payments made directly by Smithfield Farmland Corporation, on behalf of The Authority, for principal and interest for the current year were \$601,443.

**IV. Transactions with Related Parties and Major Customers**

Brunswick County is related to the Authority as one of its members (See Note 1: Reporting Entity). The Authority currently sells water to Brunswick County under a Fourth Amended and Restated Water Supply Agreement dated December 10, 2012, which continues until December 31, 2030, with provisions for ten-year extensions thereafter. Water charges of \$1,818,755 for the year ended June 30, 2022 (25% of total water charges) and a customer receivable of \$150,603 at June 30, 2022 are attributable to Brunswick County.

The Authority currently sells water to the Cape Fear Public Utility Authority. Water charges of \$1,324,190 for the year ended June 30, 2022 (18%) and a customer receivable of \$74,561 are attributable to the Cape Fear Public Utility Authority.

**V. Summary Disclosure of Significant Deficiencies**

The Authority has received proceeds from several federal 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.

**VI. Significant Effects of Subsequent Events**

There are no subsequent events that would have a material effect on the financial statements. Subsequent events have been analyzed through the date that the financial statements were available to be issued.

REQUIRED  
SUPPLEMENTAL FINANCIAL DATA

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

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

Schedule of Contributions – Local Government  
Employees’ Retirement System

**Lower Cape Fear Water and Sewer Authority**  
**Lower Cape Fear WSA's Proportionate Share of Net Pension Liability (Asset)**  
**Required Supplementary Information**  
**Last Nine Fiscal Years\***

**Local Government Employees' Retirement System**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability (asset) (%)	0.00083%	0.00024%	0.00059%	0.00074%	0.00086%	0.00098%	0.00100%	0.0011%	0.0012%
Authority's proportion of the net pension liability (\$)	\$ 12,729	\$ 8,576	\$ 16,112	\$ 17,555	\$ 13,138	\$ 20,799	\$ 4,623	\$ (6,546)	\$ 14,465
Authority's covered-employee payroll	\$ 165,309	\$ 133,855	\$ 160,576	\$ 156,534	\$ 153,122	\$ 149,387	\$ 145,429	\$ 145,650	\$ 138,599
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.70%	6.41%	10.03%	11.21%	8.58%	13.92%	3.18%	( 4.49%)	10.44%
Plan fiduciary net position as a percentage of the total pension liability**	95.51%	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.

**Lower Cape Fear Water and Sewer Authority  
Lower Cape Fear WSA's Contributions  
Required Supplementary Information  
Last Nine Fiscal Years**

**Local Government Employees' Retirement System**

	<u>2022</u>	<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	\$ 18,668	\$ 17,820	\$ 12,770	\$ 13,344	\$ 12,554	\$ 11,744	\$ 10,547	\$ 10,820	\$ 10,820
Contributions in relation to the contractually required contribution	18,668	17,820	12,770	13,344	12,554	11,744	10,547	10,820	10,820
Contribution deficiency (excess)	<u>\$ -</u>								
Authority's covered-employee payroll	\$ 159,964	\$ 165,309	\$ 133,855	\$ 160,576	\$ 156,534	\$ 153,122	\$ 149,387	\$ 145,429	\$ 145,650
Contributions as a percentage of covered-employee payroll	11.67%	10.78%	9.54%	8.31%	8.02%	7.67%	7.06%	7.44%	7.43%

## INDIVIDUAL FUND SCHEDULES

- Enterprise Operating Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Non-GAAP)
- Renewal and Replacement Fund - Schedule of Revenues and Expenditures -  
Budget and Actual (Non-GAAP)
- Right of Way Fund - Schedule of Revenues and Expenditures -  
Budget and Actual (Non-GAAP)
- System Development Charge Fund - Schedule of Revenues and Expenditures -  
Budget and Actual (Non-GAAP)
- Enterprise Capital Project Fund - Schedule of Revenues and Expenditures -  
Budget and Actual (Non-GAAP)

**Lower Cape Fear Water and Sewer Authority, North Carolina**  
**Enterprise Operating Fund**  
**Schedule of Revenues, Expenditures, and Changes Fund Balance**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2022**

	2022		Variance Positive (Negative)
	Budget	Actual	
<b>Revenues:</b>			
Operating revenue:			
Brunswick County		1,818,755	
Invista		101,260	
Cape Fear Public Utility Authority		1,324,190	
Praxair, Inc.		2,503	
Pender County		189,434	
Bladen Bluffs income		3,151,418	
Treated water supply agreement (Smithfield)		884,655	
Other operating revenues		114,314	
Total operating revenues	<u>\$ 7,350,083</u>	<u>7,586,529</u>	<u>\$ 236,446</u>
Nonoperating revenues:			
Interest earnings		699	
Other non-operating revenues		2,722	
Total non-operating revenues	<u>2,978</u>	<u>3,421</u>	<u>443</u>
 Total Revenues:	 <u>7,353,061</u>	 <u>7,589,950</u>	 <u>236,889</u>
<b>Expenditures:</b>			
Administration:			
Salaries and benefits		314,496	
Insurance		87,417	
Office expense		92,275	
Professional services		72,114	
Other		202,767	
Total administration	<u>1,099,314</u>	<u>769,069</u>	<u>330,245</u>
Other operating expenditures:			
Kings Bluff O&M expenses		493,320	
Bladen Bluffs expenses		2,514,044	
Utilities-Energy Pump Station		698,525	
Capital Outlay		872,297	
Debt service - principal		1,803,043	
Debt service - interest		101,023	
Total other operating expenditures	<u>6,645,000</u>	<u>6,482,252</u>	<u>162,748</u>
 Total expenditures	 <u>7,744,314</u>	 <u>7,251,321</u>	 <u>492,993</u>

	2022		Variance Positive (Negative)
	Budget	Actual	
Revenue over expenditures	<u>(391,253)</u>	<u>338,629</u>	<u>729,882</u>
<b>Other financing sources (uses):</b>			
Insurance Claim Proceeds	-	1,411	1,411
Transfers from (to) other funds	<u>391,253</u>	<u>(269,740)</u>	<u>(660,993)</u>
Total other financing sources (uses):	<u>391,253</u>	<u>1,411</u>	<u>(389,842)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 340,040</u>	<u>\$ 340,040</u>

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

Revenues over expenditures	<u>\$ 340,040</u>
Reconciling items:	
Depreciation	(1,727,437)
Capital outlay	872,297
Principal payments on long-term debt	1,803,043
(Increase) decrease in net pension liability	(4,153)
(Increase) decrease in compensated absences	(8,498)
Increase (decrease) in deferred outflows of resources for pensions	22,784
(Increase) decrease in deferred inflows of resources for pensions	(18,186)
Items from Schedules 2 through 5	
Other expenses from capital projects	-
Other income from capital projects	15,550
Interest earned from capital projects	66
Total reconciling items	<u>955,466</u>
Change in net position	<u>\$ 1,295,506</u>

**Lower Cape Fear Water and Sewer Authority, North Carolina**  
**Renewal and Replacement Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2022**

	2022		Variance Positive (Negative)
	Budget	Actual	
<b>Revenues:</b>			
Interest earnings		\$ 11	
Miscellaneous		15,550	
Total non-operating revenues	\$ -	15,561	\$ 15,561
<b>Expenditures:</b>			
Repairs and maintenance		-	-
Miscellaneous		-	-
Total expenditures	-	-	-
<b>Other financing sources (uses):</b>			
Transfers from other funds	-	121,513	-
Total other financing sources (uses):	-	121,513	121,513
Revenues and other sources over (under) expenditures and other financing uses	\$ -	137,074	\$137,074
<b>Fund balance</b>			
Fund balance - beginning		55,380	
Fund balance - ending		\$192,454	

**Lower Cape Fear Water and Sewer Authority, North Carolina**  
**Right of Way Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2022**

	2022		Variance Positive (Negative)
	Budget	Actual	
<b>Revenues:</b>			
Interest earnings		\$ 55	
Total Revenues	\$ -	55	\$ 55
<b>Expenditures:</b>			
Administration expenses		-	
Total expenditures	-	-	-
Revenues over (under) expenditures	-	55	55
<b>Other financing sources (uses):</b>			
Fund balance appropriated	-	-	-
Total other financing sources (uses)	-	-	-
Revenues and other sources over expenditures and other uses	\$ -	55	\$ 55
<b>Fund balance</b>			
Fund balance - beginning		281,371	
Fund balance - ending		281,426	

**Lower Cape Fear Water and Sewer Authority, North Carolina**  
**System Development Charge Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2022**

	2022		Variance Positive (Negative)
	Budget	Actual	(Negative)
<b>Revenues:</b>			
Interest earnings		\$ -	
Total Revenues	\$ -	-	\$ -
<b>Expenditures:</b>			
Administration expenses		-	
Total expenditures	-	-	-
Revenues over (under) expenditures	-	-	-
<b>Other financing sources (uses):</b>			
Fund balance appropriated	-	-	
Total other financing sources (uses)	-	-	-
Revenues and other sources over expenditures and other uses	\$ -	-	\$ -
<b>Fund balance</b>			
Fund balance - beginning		14	
Fund balance - ending		\$ 14	

**Lower Cape Fear Water and Sewer Authority, North Carolina**  
**Enterprise Capital Project Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year Ended June 30, 2022**

	2022		Variance Positive (Negative)
	Budget	Actual	
<b>Revenues:</b>			
Grant revenue		\$ -	
Total Revenues	\$ -	-	\$ -
<b>Expenditures:</b>			
Repairs and Maintenance		-	
Administration expenses		-	
Total expenditures	-	-	-
Revenues over (under) expenditures	-	-	-
<b>Other financing sources (uses):</b>			
Transfers from (to) other funds	-	(391,253)	(391,253)
Total other financing sources (uses)	-	(391,253)	(391,253)
Revenues and other sources over expenditures and other uses	\$ -	(391,253)	\$ (391,253)
<b>Fund balance</b>			
Fund balance - beginning		680,990	
Fund balance - ending		\$ 289,737	