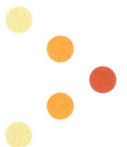


CLEVELAND COUNTY WATER

Financial Report

Years Ended June 30, 2020 and 2019



CLEVELAND COUNTY WATER

Financial Report

Years Ended June 30, 2020 and 2019

Board of Commissioners

Donald Melton, Chairman
Dewey Cook, Vice Chairman
Bill Cameron, Secretary
Amy Elliott Bridges
Tony Brooks
John Taylor
Bruce Martin

Administrative and Financial Staff

Brad Cornwell, General Manager
Ginger Fern, Finance Director

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Independent Auditors' Report

To the Chairman and Board of Commissioners
Cleveland County Water
Lawndale, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Cleveland County Water which comprise the statements of fund net position as of June 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Cleveland County Water's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Cleveland County Water as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of Cleveland County Water. The other supplementary schedules, as listed in the table of contents, as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary schedules and the Schedule of Expenditures of Federal and State Awards 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 23, 2020, on our consideration of Cleveland County Water's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Cleveland County Water's internal control over financial reporting and compliance.

Johnson Price Sprinkle PA

Asheville, North Carolina
October 23, 2020

CLEVELAND COUNTY WATER

Management's Discussion and Analysis

Introduction

Management's Discussion and Analysis ("MD&A") provides a narrative for Cleveland County Water's (the "Company") financial activities for the fiscal years ended June 30, 2020 and 2019. The information complements the data presented in the financial statements and is to be used to enhance the reader's understanding of the Company's financial performance.

Financial Highlights

- The Company's basic financial statements consist of a single enterprise fund.
- At June 30, 2020 and 2019 the Company's assets and deferred outflows exceeded its liabilities and deferred inflows by \$39,825,098 and \$38,753,861, respectively.
- At June 30, 2020 and 2019, the Company's unrestricted net position was \$5,395,662 and \$4,012,507, respectively.

Overview of the Financial Statements

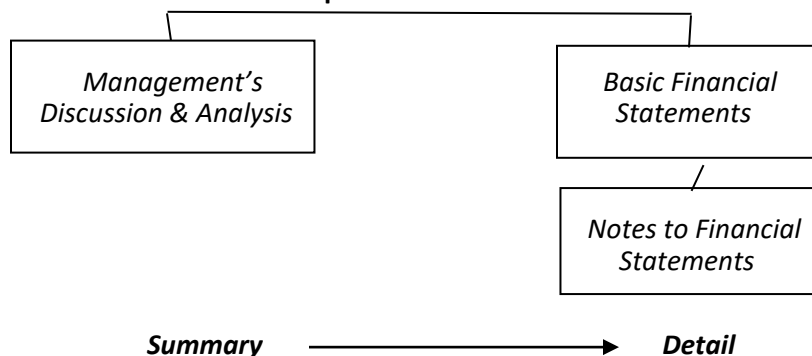
This MD&A serves as an introduction to the Company's basic financial statements and notes to the financial statements. In addition to the basic financial statements, this report contains other supplemental information designed to enhance the understanding of the financial condition of the Company.

Basic Financial Statements

The Company is a special purpose government that accounts for its activities as a business-type entity. The first section of the basic financial statements is financial statements for the Company's single proprietary fund that focuses on the business activities of the enterprise. The statements are designed to provide a broad overview of the Company's finances, operations and cash flow, similar in format to private sector business statements, and provide short and long-term information about the Company's financial status.

The second section of the basic financial statements is the notes to the financial statements that explain in more detail some of the data contained in the financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. After the notes to the financial statements, supplemental information is provided to show how the Company's actual revenue and expense amounts compare to amounts budgeted. Supplemental information can be found on pages 38 to 60 of these financial statements.

Required Components of Annual Financial Report



In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information and other supplementary information such as budgetary information.

CLEVELAND COUNTY WATER
Management’s Discussion and Analysis – continued

Budget Highlights

The Company’s annual balanced budget is prepared on the modified accrual basis of accounting in accordance with the Budget and Fiscal Control Act of North Carolina General Statutes.

During the course of fiscal year 2020, the Company made various amendments to its formal budget. The activities of the Company are monitored by the Finance Director for any shortfalls of revenue or overspending. Income and expense statements along with comparative graphs are presented by the General Manager at each board meeting.

Financial Analysis

The following is a summary of net position:

	June 30,		
	2020	2019	2018
Current and other assets	\$ 9,352,104	\$ 7,647,891	\$ 6,486,096
Capital assets	38,551,161	36,695,065	35,630,035
Deferred outflows of resources	676,531	615,989	383,079
Total assets and deferred outflows of resources	<u>48,579,796</u>	<u>44,958,945</u>	<u>42,499,210</u>
Long-term liabilities outstanding	6,811,968	4,444,427	2,885,514
Other liabilities	1,705,670	1,530,538	2,675,391
Deferred inflows of resources	237,060	230,119	144,748
Total liabilities and deferred inflows of resources	<u>8,754,698</u>	<u>6,205,084</u>	<u>5,705,653</u>
Net position:			
Net investment in capital assets	34,429,436	34,741,354	33,436,852
Unrestricted – board designated	2,204,735	1,575,179	1,052,507
Unrestricted	<u>3,190,927</u>	<u>2,437,328</u>	<u>2,304,198</u>
Total net position	<u>\$ 39,825,098</u>	<u>\$ 38,753,861</u>	<u>\$ 36,793,557</u>

The Company’s net position increased by approximately \$1.07 million for the year ended June 30, 2020 and increased by approximately \$1.9 million for the year ended June 30, 2019. Net investment in capital assets decreased by approximately \$312,000 during the year ended June 30, 2020 and increased by approximately \$1.3 million during the year ended June 30, 2019. The Company funded the majority of the increase for the years ended June 30, 2020 and 2019 through operations and general revenues.

Unrestricted net position represents the excess of assets and deferred outflows over liabilities and deferred inflows that the Company can utilize in future periods. Unrestricted net position increased for the year ended June 30, 2020 from approximately \$4 million in 2019 to approximately \$5.4 million in 2020. Unrestricted net position increased for the year ended June 30, 2019 from approximately \$3.4 million in 2018 to approximately \$4 million in 2019.

CLEVELAND COUNTY WATER
Management’s Discussion and Analysis – continued

The following is a summary of changes in net position:

	For the years ended June 30,		
	2020	2019	2018
Revenues:			
Operating revenues	\$ 8,201,899	\$ 7,495,882	\$ 7,202,473
Nonoperating revenues	1,523,600	1,657,852	1,375,637
Total revenues	<u>9,725,499</u>	<u>9,153,734</u>	<u>8,578,110</u>
Expenses:			
Operating expenses	8,319,983	7,160,519	6,628,588
Interest on long-term debt	51,034	23,767	44,260
Nonoperating expenses	283,245	9,144	-
Total expenses	<u>8,654,262</u>	<u>7,193,430</u>	<u>6,672,848</u>
Increase in net position	1,071,237	1,960,304	1,905,262
Net position, July 1	38,753,861	36,793,557	35,854,648
Cumulative effect of change in accounting principle	<u>-</u>	<u>-</u>	<u>(966,353)</u>
Net position, June 30	<u>\$ 39,825,098</u>	<u>\$ 38,753,861</u>	<u>\$ 36,793,557</u>

Included in non-operating revenues is approximately \$900,000 and \$800,000 in special district ad valorem taxes for the years ended June 30, 2020 and 2019, respectively. The Company has established a levy of \$0.02 per \$100 of property value. Such taxes are billed, collected and administered by Cleveland County, North Carolina. Operating revenues of the Company represent various customer charges for services. Operating revenues increased in 2020, from approximately \$7.5 million in 2019 to approximately \$8.2 million in 2020. Operating expenses increased approximately \$1.2 million and \$500,000 for the years ended June 30, 2020 and 2019, respectively.

The effects of implementation of GASB Statement No. 75 in 2018 resulted in a significant change in financial position as noted above in the cumulative effect of change in accounting principle. Additional information with respect to the change in accounting principle can be found in the footnotes to the financial statements.

Capital Assets

The Company’s investment in capital assets net of accumulated depreciation was approximately \$38.6 million and \$36.7 million as of June 30, 2020 and 2019, respectively. During 2020, construction activity related primarily to plant and distribution improvements and equipment. Of the total 2020 additions of approximately \$3.9 million, approximately 65% was expended for construction in progress, and 29% was expended for water and plant distribution systems. The remaining 6% was related to a land purchase, and to plant and distribution equipment and meter services equipment purchases.

CLEVELAND COUNTY WATER
Management’s Discussion and Analysis – continued

The following is a summary of capital assets, net of accumulated depreciation:

	June 30,		
	2020	2019	2018
Land and land easements	\$ 1,057,862	\$ 953,221	\$ 830,154
Construction in progress	3,923,533	1,608,197	589,210
Land improvements and tank sites	560,573	578,435	569,963
Plant and distribution system	31,249,789	31,505,924	31,714,574
Buildings – administrative	270,219	283,525	293,606
Administrative equipment	69,810	120,643	123,989
Plant and distribution equipment	1,274,888	1,470,220	1,296,752
Meter services equipment	58,192	85,439	119,014
Maintenance building	86,295	89,461	92,773
Total	\$ 38,551,161	\$ 36,695,065	\$ 35,630,035

Other Long-Term Liabilities

The Company continues to pay down the balance of long-term liabilities relating to loans and general obligation bonds. As of June 30, 2020, debt consists of notes from direct borrowings. Long-term debt decreased by approximately \$153,000 and \$1.5 million in 2020 and 2019, respectively. The Company’s total debt outstanding as of June 30, 2020 and 2019 was approximately \$3.8 million and approximately \$1.6 million, respectively. The remaining portion of long-term liabilities consists of a capital lease totaling approximately \$302,000 as of June 30, 2020 and approximately \$387,000 as of June 30, 2019, net pension liability totaling approximately \$826,000 as of June 30, 2020 and approximately \$769,000 as of June 30, 2019, other post-employment benefit liability totaling approximately \$2.2 million as of June 30, 2020 and approximately \$1.9 million as of June 30, 2019, and compensated absences liability totaling approximately \$252,000 million as of June 30, 2020 and approximately \$212,000 as of June 30, 2019.

Additional information with respect to the Company’s long-term debt can be found in the footnotes to the financial statements.

Economic Factors and Next Year’s Budget

The Company is located in and serves residents of Cleveland County, North Carolina. Economic growth in this area has been slow since the recession of 2008 and is projected to continue slow growth in the near future. The Company is not projecting a significant increase in the water demands of the County, but continues to plan for steady growth over time and continued maintenance and improvements of the plant and distribution system.

The Company has been impacted by the effects of COVID-19. Per the Executive Orders from NC Governor Roy Cooper, the Company stopped assessing late fees on past due accounts, as well as fees charged on returned checks, for a period of 6 months. This yielded lost revenues of \$127,000. The Company also absorbed customer credit card convenience fees for a period of 7 months, which totaled \$43,000 of additional expenses. For the FY 2021 budget, the Company eliminated the Cost of Living Adjustment that had been planned for pay increases. The Company also decreased the budget for local option sales tax revenues by 10%, or \$24,000, since there was uncertainty as to local consumer spending during the pandemic. The Company began to allow customer payment plans for the first time, per the Executive Orders from Governor Cooper.

CLEVELAND COUNTY WATER
Management's Discussion and Analysis – continued

Requests for Information

This report is designed to provide an overview of the Company'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 Finance Director, Cleveland County Water, P.O. Box 788, Lawndale, North Carolina 28090.

CLEVELAND COUNTY WATER

STATEMENTS OF FUND NET POSITION--
 PROPRIETARY FUND
 June 30, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,525,035	\$ 4,208,777
Investments	2,204,735	1,017,881
Accounts receivable – customers, net	1,073,161	977,974
Taxes receivable	48,923	42,516
Grants and awards receivable	583,698	708,140
Other receivables	386,557	234,380
Inventories	474,113	458,223
Prepaid expenses	55,882	-
Total current assets	9,352,104	7,647,891
Property and equipment:		
Land and land easements	1,057,862	953,221
Construction in progress	3,923,533	1,608,197
Land improvements and tank sites	735,260	741,785
Plant and distribution	60,719,553	60,307,797
Meter services equipment	169,797	157,433
Buildings	618,911	618,911
Equipment	396,671	408,609
Less: accumulated depreciation	(29,070,426)	(28,100,888)
Property and equipment, net	38,551,161	36,695,065
Total assets	47,903,265	44,342,956
Deferred outflows of resources		
Pension deferrals	489,187	586,717
OPEB deferrals	187,344	29,272
Total deferred outflows of resources	676,531	615,989
Liabilities		
Current liabilities:		
Current portion of long-term debt	332,357	152,840
Current portion of capital lease	86,998	84,950
Accounts payable	374,980	453,915
Accrued compensation	55,929	42,148
Compensated absences	123,279	127,198
Accrued interest on long-term debt	37,613	3,668
Customer deposits	694,514	665,819
Total current liabilities	1,705,670	1,530,538
Other noncurrent liabilities:		
Long-term debt	3,487,468	1,414,021
Capital lease	214,902	301,900
Compensated absences	128,303	84,814
Net pension liability	826,104	768,876
Total OPEB liability	2,155,191	1,874,816
Total other noncurrent liabilities	6,811,968	4,444,427
Total liabilities	8,517,638	5,974,965

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

CLEVELAND COUNTY WATER
 STATEMENTS OF FUND NET POSITION--
 PROPRIETARY FUND – CONTINUED
 June 30, 2020 and 2019

	2020	2019
Deferred inflows of resources		
Unavailable water sales	69,550	54,797
Pension deferrals	36,506	22,902
OPEB deferrals	131,004	152,420
Total deferred inflows of resources	<u>237,060</u>	<u>230,119</u>
Net position		
Net investment in capital assets	34,429,436	34,741,354
Unrestricted – board designated	2,204,735	1,575,179
Unrestricted	<u>3,190,927</u>	<u>2,437,328</u>
Total net position	<u>\$ 39,825,098</u>	<u>\$ 38,753,861</u>

CLEVELAND COUNTY WATERSTATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION -- PROPRIETARY FUND

Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenues:		
Water charges	\$ 7,965,183	\$ 7,299,804
Tap connection charges	236,716	196,078
Total operating revenues	<u>8,201,899</u>	<u>7,495,882</u>
Operating expenses:		
Salaries and employee benefits	3,374,017	2,997,918
Administrative	978,619	737,321
Water plant	685,078	739,985
Water line maintenance	1,550,272	1,076,910
Meter services	49,207	53,182
Capital outlay	158,088	87,376
Depreciation	1,524,702	1,467,827
Total operating expenses	<u>8,319,983</u>	<u>7,160,519</u>
Operating income (loss)	<u>(118,084)</u>	<u>335,363</u>
Non-operating income (expenses):		
Special district ad valorem tax	905,357	835,601
Restricted intergovernmental	231,935	467,022
Investment earnings	77,834	61,891
Local option sales tax	257,549	248,782
Miscellaneous income	50,925	44,556
Loss on sale of capital assets	(283,245)	(9,144)
Interest on long-term debt	(51,034)	(23,767)
Total non-operating income	<u>1,189,321</u>	<u>1,624,941</u>
Change in net position	1,071,237	1,960,304
Net position, beginning	<u>38,753,861</u>	<u>36,793,557</u>
Net position, ending	<u>\$ 39,825,098</u>	<u>\$ 38,753,861</u>

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

CLEVELAND COUNTY WATER

STATEMENTS OF CASH FLOWS

PROPRIETARY FUND

Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from customers	\$ 8,405,670	\$ 6,762,759
Cash paid for goods and services	(3,571,971)	(2,553,917)
Cash paid to employees and benefits	(3,051,417)	(2,804,648)
Net cash provided by operating activities	<u>1,782,282</u>	<u>1,404,194</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(3,664,043)	(2,571,093)
Proceeds from disposal of capital assets	-	29,092
Proceeds from long-term debt	2,405,804	1,211,732
Principal paid on long-term debt	(152,840)	(1,547,841)
Proceeds from capital lease	-	163,045
Principal paid on capital lease	(84,950)	(52,908)
Interest paid on long-term debt and capital lease	(51,034)	(23,767)
Special district ad valorem tax	911,764	838,376
Non-operating revenues	257,164	751,216
Net cash used in capital and related financing activities	<u>(378,135)</u>	<u>(1,202,148)</u>
Cash flows from investing activities:		
Interest received	77,834	61,891
Purchase of investments	(1,165,723)	(527,927)
Net cash used in investing activities	<u>(1,087,889)</u>	<u>(466,036)</u>
Change in cash and cash equivalents	316,258	(263,990)
Cash and cash equivalents, beginning of year	<u>4,208,777</u>	<u>4,472,767</u>
Cash and cash equivalents, end of year	<u>\$ 4,525,035</u>	<u>\$ 4,208,777</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (118,084)	\$ 335,363
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,524,702	1,467,827
Loss on disposal of property and equipment	283,245	9,144
Forgiveness of debt due to loss of collateral	-	(13,500)
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable – customers, net	(95,187)	(176,876)
Grants and awards receivable	124,442	(661,870)
Other receivables	(152,177)	27,628
Inventories	(15,890)	(117,698)
Prepaid expenses	(55,882)	21,047
Deferred outflows of resources – pensions	97,530	(242,334)
Deferred outflows of resources – OPEB	(158,072)	9,424
Accounts payable	(78,935)	237,508
Accrued compensation	53,351	44,993
Customer deposits	28,695	27,554
Net pension liability	57,228	314,531
OPEB liability	280,375	36,082
Deferred inflows of resources – unavailable water sales	14,753	54,797
Deferred inflows of resources – pensions	13,604	(18,598)
Deferred inflows of resources – OPEB	(21,416)	49,172
Total adjustments	<u>1,900,366</u>	<u>1,068,831</u>
Net cash provided by operating activities	<u>\$ 1,782,282</u>	<u>\$ 1,404,194</u>

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

Note 1 – Significant Accounting Policies

The accounting policies of Cleveland County Water (the “Company”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

Cleveland County Water was established under North Carolina General Statute (G.S) 130A-47 to provide water services to the citizens of Cleveland County. Cleveland County Water is governed by a seven-member board of commissioners. For financial reporting purposes, Cleveland County Water includes all funds over which it exercises control. No agencies, boards, commissions or other authorities are controlled by or are financially accountable to Cleveland County Water. Accordingly, there are no entities which meet the requirements of a reportable component unit.

B. Basis of Presentation

Fund Financial Statements: The accounts of Cleveland County Water are organized and operated on the basis of funds and are maintained on an accrual basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues and expenditures or expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Cleveland County Water reports one generic fund type:

Proprietary Fund

Enterprise Fund – The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that 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 periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Cleveland County Water has one Enterprise Fund - the Water Fund.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 1 – Significant Accounting Policies – continued

C. Measurement Focus and Basis of Accounting

The proprietary fund is reported using the economic resources measurement focus and accrual basis of accounting. Basis of accounting determines when revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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 Company's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Data

Cleveland County Water's budgets are adopted as required by the North Carolina General Statutes. Accordingly, an annual budget ordinance has been adopted for the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for capital project funds. The manager has the authority to make any budget amendments necessary to properly reflect the expenditures of Cleveland County Water.

E. Assets, Liabilities, and Net Position

1. Cash and Cash Equivalents

Cleveland County Water considers all temporary cash investments purchased with an original maturity of three months or less to be cash equivalents. Cleveland County Water pools money from several purposes to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

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

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued
June 30, 2020 and 2019

Note 1 – Significant Accounting Policies – continued

2. Investments

State law G.S. 159-30(c) authorizes Cleveland County Water 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 NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. The NCCMT- Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2020, 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.

Investments with an anticipated maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. Money market and other highly liquid investments that have an anticipated maturity at the time of purchase of one year or less and non-participating interest earnings and investment contracts are reported at fair value.

3. Receivables

Due to the dates customer meters are read, billings lag behind actual consumer usage each month. Estimated amounts for this usage which are unbilled at fiscal year-end are recorded by Cleveland County Water as revenue. Unbilled revenues totaled \$426,031 and \$308,360 as of June 30, 2020 and 2019, respectively.

The Company's grants and awards receivable are from various grantor agencies for reimbursements not received at year-end totaled \$583,698 and \$708,140 as of June 30, 2020 and 2019, respectively.

4. Allowance for Doubtful Accounts

Allowances for doubtful accounts are maintained on all types of receivables which historically experience uncollectible accounts (see Note 3). This amount is generally estimated by analyzing the percentage of receivables that were determined to be uncollectible in prior years.

5. Inventory

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method. Inventories are generally used for construction, operations and maintenance and are not held for resale. The cost of material and supply inventories held for subsequent use are expensed when consumed rather than when purchased.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 1 – Significant Accounting Policies – continued

6. Capital Assets

Company capital assets are stated at original cost at the time of acquisition. All purchases that are not recurring maintenance and repair expenses and are over \$5,000 are capitalized. Property, plant and equipment donated to Cleveland County Water is recorded at the estimated fair market value at the date of donation. Interest is capitalized on Company fixed assets financed by tax-exempt debt. The amount capitalized is determined by offsetting the interest expense by the interest revenues on borrowed funds from the date of issue until completion of the project. Long-lived assets held and used by Cleveland County Water are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable. The cost and accumulated depreciation of property are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the statements of revenues, expenses and changes in net position. Plant assets are depreciated on a straight-line method over the estimated service lives of the property of 50 years. Other assets are depreciated on a class life basis at the following rates:

Furniture and office equipment	10 years
Maintenance and construction equipment	10 years
Automobiles and light trucks	5 years

7. Long-Term Debt

Debt issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt. The debt service requirements are being met by water revenues, but the taxing power of Cleveland County Water is pledged to make these payments if water revenues should ever be insufficient.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position contain 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. Cleveland County Water has two items that meet this criterion - pension related deferrals and OPEB related deferrals that consist of contributions made to the pension and OPEB plans in the current fiscal year. In addition to liabilities, the statements of financial position can also 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. Cleveland County Water has three items that meet the criterion for this category – unavailable water sales, pension related deferrals, and OPEB related deferrals.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 1 – Significant Accounting Policies – continued

9. Defined Benefit Pension Plan

Cleveland County Water participates in a cost-sharing multiple employer defined benefit pension plan that is administered by the Local Governmental Employees' Retirement System (LGERS). For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the state-administered defined benefit pension plan fiduciary net position have been determined on the same basis as they are reported by the state-administered defined benefit pension plan. For this purpose, plan member contributions are recognized when due and Cleveland County Water has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the state-administered defined pension plans. Investments are reported at fair value.

10. Compensated Absences

The vacation policy of Cleveland County Water provides for employees to accrue vacation based on years of service. Employees can accumulate up to 240 hours of vacation time. Once an employee's accrued vacation hours reach 240 hours, the excess hours earned are added to the employee's accumulated sick leave.

Cleveland County Water's sick leave policy allots employees two weeks of sick leave each year. Employees can either take their sick time or accumulate the sick leave to be used for service credit toward retirement in the local government retirement system.

11. Restricted Net Position

Generally, Cleveland County Water utilizes restricted net position for their specified purposes prior to utilizing unrestricted net position for the specified purpose.

F. Other

Management 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 1 – Significant Accounting Policies – continued

Reclassifications

Certain amounts for the year ended June 30, 2019 have been reclassified to conform to the current year presentation. These reclassifications had no effect on the change in net position for the year ended June 30, 2019.

Note 2 – Stewardship, Compliance, and Accountability

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

There are no significant violations of finance-related legal and contractual provisions.

Note 3 – Detail Notes on All Funds and Account Groups

A. Assets

Deposits

All of Cleveland County Water's deposits 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 Cleveland County Water's agent in Cleveland County Water's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for Cleveland County Water, these deposits are considered to be held by Cleveland County Water's agent in Cleveland County Water'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 Cleveland County Water or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for Cleveland County Water 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. Cleveland County Water 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. Cleveland County Water complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

As of June 30, 2020 and 2019, Cleveland County Water's deposits (including board designated reserves) had a carrying amount of \$4,523,260 and \$4,207,002, respectively, and a bank balance of \$4,655,153 and \$4,220,205, respectively. Of the June 30, 2020 bank balance, \$250,000 was covered by federal depository insurance and \$4,405,153 was covered by collateral held under the pooling method. The Company had \$1,775 cash on hand as of June 30, 2020 and 2019.

Investments

As of June 30, 2020 and 2019, Cleveland County Water had \$2,204,735 and \$1,017,881, respectively, invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Company has no policy regarding credit risk.

Board Designated Reserves

As of June 30, Board designated reserves consisted of the following:

	<u>2020</u>	<u>2019</u>
Healthcare Reserve (money market account)	\$ -	\$ 557,298
Capital Reserve (NCCMT)	<u>2,204,735</u>	<u>1,017,881</u>
Total unrestricted – board designated reserves	<u>\$ 2,204,735</u>	<u>\$ 1,575,179</u>

The Healthcare Reserve funds have been internally designated for the purpose of funding postemployment benefits for retirees. The funds have been put into a separate money market account to pay health insurance to retired employees. During the year ended June 30, 2020, the board and management determined this reserve was not necessary due to OPEB liabilities that were already booked and transferred the balance to the capital reserve fund.

The Capital Reserve funds have been internally designated for the purpose of funding future capital projects. The funds have been put into a separate NCCMT account to pay on capital projects.

Receivables – Allowance for Doubtful Accounts

The amounts presented in the statements of fund net position are net of the following allowances for doubtful accounts:

	<u>2020</u>	<u>2019</u>
Accounts receivable – customers	<u>\$39,507</u>	<u>\$53,219</u>

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued**Capital Assets**

Capital asset activity for Cleveland County Water for the years ended June 30, 2020 and 2019, is as follows:

	June 30, 2019	Increases	Decreases	June 30, 2020
Capital assets not being depreciated:				
Land and land easements	\$ 953,221	\$ 104,641	\$ -	\$1,057,862
Construction in progress	<u>1,608,197</u>	<u>2,579,613</u>	<u>264,277</u>	<u>3,923,533</u>
Total capital assets not being depreciated	<u>2,561,418</u>	<u>2,684,254</u>	<u>264,277</u>	<u>4,981,395</u>
Capital assets being depreciated:				
Land improvements and tank sites	741,785	-	6,525	735,260
Plant and distribution system	55,837,666	1,137,442	529,005	56,446,103
Buildings – administrative	460,570	-	-	460,570
Administrative equipment	408,609	-	11,938	396,671
Plant and distribution equipment	4,470,131	95,106	291,787	4,273,450
Meter services equipment	157,433	22,397	10,033	169,797
Maintenance building	<u>158,341</u>	<u>-</u>	<u>-</u>	<u>158,341</u>
Total capital assets being depreciated	<u>62,234,535</u>	<u>1,254,945</u>	<u>849,288</u>	<u>62,640,192</u>
Less accumulated depreciation for:				
Land improvements and tank sites	163,350	11,337	-	174,687
Plant and distribution system	24,331,742	1,150,557	285,985	25,196,314
Buildings – administrative	177,045	13,306	-	190,351
Administrative equipment	287,966	49,911	11,016	326,861
Plant and distribution equipment	2,999,911	256,814	258,163	2,998,562
Meter services equipment	71,994	39,611	-	111,605
Maintenance building	<u>68,880</u>	<u>3,166</u>	<u>-</u>	<u>72,046</u>
Total accumulated depreciation	<u>28,100,888</u>	<u>1,524,702</u>	<u>555,164</u>	<u>29,070,426</u>
Total capital assets being depreciated, net	<u>34,133,647</u>			<u>33,569,766</u>
Capital assets, net	<u>\$ 36,695,065</u>			<u>\$ 38,551,161</u>

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

	June 30, 2018	Increases	Decreases	June 30, 2019
Capital assets not being depreciated:				
Land and land easements	\$ 830,154	\$ 123,067	\$ -	\$ 953,221
Construction in progress	<u>589,210</u>	<u>1,280,533</u>	<u>261,546</u>	<u>1,608,197</u>
Total capital assets not being depreciated	<u>1,419,364</u>	<u>1,403,600</u>	<u>261,546</u>	<u>2,561,418</u>
Capital assets being depreciated:				
Land improvements and tank sites	741,785	-	-	741,785
Plant and distribution system	54,745,188	1,094,126	1,648	55,837,666
Buildings – administrative	460,570	-	-	460,570
Administrative equipment	417,735	20,383	29,509	408,609
Plant and distribution equipment	4,352,041	295,322	177,232	4,470,131
Meter services equipment	159,277	19,523	21,367	157,433
Maintenance building	<u>158,341</u>	<u>-</u>	<u>-</u>	<u>158,341</u>
Total capital assets being depreciated	<u>61,034,937</u>	<u>1,429,354</u>	<u>229,756</u>	<u>62,234,535</u>
Less accumulated depreciation for:				
Land improvements and tank sites	171,822	-	8,472	163,350
Plant and distribution system	23,030,614	1,301,527	399	24,331,742
Buildings – administrative	166,964	10,081	-	177,045
Administrative equipment	293,746	12,980	18,760	287,966
Plant and distribution equipment	3,055,289	106,982	162,360	2,999,911
Meter services equipment	40,263	41,417	9,686	71,994
Maintenance building	<u>65,568</u>	<u>3,312</u>	<u>-</u>	<u>68,880</u>
Total accumulated depreciation	<u>26,824,266</u>	<u>1,476,299</u>	<u>199,677</u>	<u>28,100,888</u>
Total capital assets being depreciated, net	<u>34,210,671</u>			<u>34,133,647</u>
Capital assets, net	<u>\$ 35,630,035</u>			<u>\$ 36,695,065</u>

Construction commitments

Cleveland County Water has active construction projects as of June 30, 2020. At year-end, the Company's commitments with contractors are as follows:

Project	Spent-to date	Remaining commitment
Lattimore tank	<u>\$ 1,841,728</u>	<u>\$ 50,085</u>

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

B. Liabilities

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. Cleveland County Water 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 Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR 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. 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.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Cleveland County Water's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. Cleveland County Water's contractually required contribution rate for the years ended June 30, 2020 and 2019, was 8.95% and 7.75%, respectively, 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 Cleveland County Water were \$188,100 and \$152,064 for the years ended June 30, 2020 and 2019, respectively.

Refunds of Contributions – Cleveland County Water 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

As of June 30, 2020 and 2019, the Cleveland County Water reported a liability of \$826,104 and \$768,876, respectively, for its proportionate share of the net pension liability. The current year's net pension liability was measured as of June 30, 2019. The previous year's net pension liability was measured as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. Cleveland County Water's proportion of the net pension liability was based on a projection of Cleveland County Water'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. As of June 30, 2019 (measurement date), Cleveland County Water's proportion was 0.03025%, which was a decrease of 0.002% from its proportion measured as of June 30, 2018.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

For the years ended June 30, 2020 and 2019, Cleveland County Water recognized pension expense of \$356,462 and \$205,663, respectively. As of June 30, 2020, Cleveland County Water 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	\$ 141,450	\$ -
Changes of assumptions	134,641	-
Net difference between projected and actual earnings on pension plan investments	20,150	-
Changes in proportion and differences between Cleveland County Water contributions and proportionate share of contributions	4,846	36,506
Cleveland County Water contributions subsequent to the measurement date	188,100	-
Total	\$ 489,187	\$ 36,506

\$188,100 reported as deferred outflows of resources related to pensions resulting from Cleveland County Water contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:

2021	\$ 137,033
2022	35,331
2023	75,516
2024	16,702
2025	-
Thereafter	-
	<u>\$ 264,582</u>

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

As of June 30, 2019, Cleveland County Water 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	\$ 118,619	\$ 3,980
Changes of assumptions	204,030	-
Net difference between projected and actual earnings on pension plan investments	105,543	-
Changes in proportion and differences between Cleveland County Water contributions and proportionate share of contributions	6,461	18,922
Cleveland County Water contributions subsequent to the measurement date	152,064	-
Total	\$ 586,717	\$ 22,902

Actuarial Assumptions. The total pension liability in the December 31, 2018 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 healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2018 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.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

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, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	<u>6.0%</u>	4.0%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2018 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.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Cleveland County Water’s proportionate share of the net pension liability (asset)	\$ 1,889,451	\$ 826,104	\$ (57,753)

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

Other Postemployment Benefits (OPEB)

Health Care Benefits:

Plan description – The Board authorized Cleveland County Water to provide health care benefits to retired employees. Thus, Cleveland County Water administers a single-employer defined benefit plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefits provided – Cleveland County Water pays the full cost of coverage for the benefits paid to qualified retirees under the plan. Cleveland County Water has chosen to fund the healthcare benefits on a pay as you go basis. Cleveland County Water obtains healthcare coverage through private insurers. Employees hired prior to January 1, 2017 who retire under the provisions of the North Carolina Local Government Employees’ Retirement System (NCLGERS) with thirty (30) or more years of service with Cleveland County Water or reach age 55 with twenty (20) or more years of service (with the last five (5) being continuous) with Cleveland County Water are eligible to participate in the Company’s group insurance plan upon retirement. Employees hired after the effective date of January 1, 2017 shall be required to have 25 or more years of continuous and uninterrupted full-time service. Employees hired after the effective date of January 1, 2017 as well as employees hired prior to these effective dates that have 25 or more years of continuous and uninterrupted full-time service may continue on the Cleveland County Water health insurance plan without charge to the employee until retired employee reaches Medicare eligibility. Health insurance and prescription drug coverage will be paid by the Company until eligible retirees reach the age of 65. Dependents are not eligible for coverage.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

Membership of the health care benefit plan consisted of the following as of June 30, 2019, the date of the latest actuarial valuation:

	General Employees:
Inactive members or beneficiaries currently receiving benefits	2
Active members	38
Total membership	<u>40</u>

Total OPEB Liability

The Company's total OPEB liability of \$2,155,191 was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	1.00%
Wage inflation	3.50%
Salary increases, including wage inflation	
General Employees	3.50% – 7.75%
Municipal Bond Index Rate (Discount rate)	
Prior Measurement Date	3.89%
Measurement Date	3.50%
Healthcare cost trend rates	
Pre-Medicare	7.00% for 2019 decreasing to an ultimate rate of 4.50% by 2026

The discount rate is based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued**Changes in the Total OPEB Liability**

	Total OPEB Liability
Balance at July 1, 2019	\$ 1,874,816
Changes for the year	
Service cost	77,056
Interest	72,386
Changes of benefit terms	-
Differences between expected and actual experience	112,461
Changes in assumptions or other inputs	46,744
Benefit payments	<u>(28,272)</u>
Net changes	<u>280,375</u>
Balance at June 30, 2020	<u>\$ 2,155,191</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.89% to 3.50%.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The demographic actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2014, adopted by the LGERS Board.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Company, as well as what the Company's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50 percent) or 1-percentage-point higher (4.50 percent) than the current discount rate:

	1% Decrease	Discount Rate (3.50%)	1% Increase
Total OPEB liability	\$ 2,383,892	\$ 2,155,191	\$ 1,947,773

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Company, as well as what the Company's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Discount Rate (3.50%)	1% Increase
Total OPEB liability	\$ 1,898,301	\$ 2,155,191	\$ 2,454,453

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2020, the Company recognized OPEB expense of \$99,887. As of June 30, 2020, the Company reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 99,089	\$ 2,709
Changes of assumptions	41,186	128,295
Benefit payments and administrative costs made subsequent to the measurement date	47,069	-
	<hr/>	<hr/>
Total	<u>\$ 187,344</u>	<u>\$ 131,004</u>

\$47,069 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2021.

Other amounts reported as Deferred Inflows of Resources related to OPEB benefits will be recognized in OPEB Expense as follows:

Measurement Period Ended June 30:

2020	\$ (2,486)
2021	(2,486)
2022	(2,486)
2023	(2,486)
2024	(2,486)
Thereafter	21,701

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

For the year ended June 30, 2019, the Company recognized OPEB expense of \$124,242. As of June 30, 2019, the Company reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 3,131
Changes of assumptions	-	149,289
Benefit payments and administrative costs made subsequent to the measurement date	29,272	-
	<hr/>	<hr/>
Total	\$ 29,272	\$ 152,420

Deferred Compensation Plan

Cleveland County Water offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Cleveland County Water employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Supplemental Retirement Income Plan

Cleveland County Water contributes to the Supplemental Retirement Income Plan (the "Plan"), a defined contribution pension plan administered by the Department of State Treasurer and Prudential Retirement. The Plan provides retirement benefits to employees of Cleveland County Water. Cleveland County Water contributes an amount equal to the employee contribution up to 5% of each eligible employee's salary. Also, the employees may make voluntary contributions to the Plan. Cleveland County Water's contribution to the Plan for the years ended June 30, 2020 and 2019 was \$90,479 and \$77,719, respectively.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

Risk Management

Cleveland County Water 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. Cleveland County Water carries commercial insurance for all risks of loss, including employee health and accident insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the last three fiscal years. Currently, Cleveland County Water does not have flood insurance. In accordance with G.S. 159-29, Cleveland County Water’s employees that have access to \$100 or more at any given time of Cleveland County Water’s funds are performance bonded through a commercial surety bond. The finance officer is covered separately by a faithful performance bond of \$50,000. Directors and officers are bonded for \$1,000,000. The remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

Long-Term Debt

a. Capital Leases

HomeTrust Bank Leases:

Cleveland County Water has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The first agreement was executed on February 15, 2018 to lease certain equipment and vehicles and required one advance payment in addition to 5 annual payments of \$59,079, including interest at a rate of 2.23%. The balance of the lease amount was \$169,717 and \$223,805 as of June 30, 2020 and 2019, respectively. The second agreement was executed on June 4, 2019 to lease vehicles and requires 5 annual payments of \$35,313, including interest at a rate of 2.73%. The balance of the lease amount was \$132,183 and \$163,045 as of June 30, 2020 and 2019, respectively. In both agreements, title passes to Cleveland County Water at the end of the lease term.

The following is an analysis of the assets recorded under capital leases as of June 30, 2020:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Classes of Property:			
Equipment	\$ 80,872	\$ 32,349	\$ 48,523
Automobiles and light trucks	<u>360,261</u>	<u>126,229</u>	<u>234,032</u>
Total	<u>\$ 441,133</u>	<u>\$ 158,578</u>	<u>\$ 282,555</u>

Leased property amortization expense is included in depreciation expense.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2020 are as follows:

Year ending June 30,

2021	\$	94,392
2022		94,392
2023		94,392
2024		35,313
2025		-
Total minimum lease payments		318,489
Less amount representing interest		16,589

Present value of the minimum lease payments \$ 301,900

b. Notes From Direct Borrowings

Carter Bank & Trust Loan:

In April 2017, Cleveland County Water entered into a direct borrowing agreement, with an interest rate of 1.75%, due in annual principal payments of \$78,000 through March 2022, with Carter Bank & Trust to finance various vehicles and equipment. The balance of the loan amount was \$127,448 and \$205,448 as of June 30, 2020 and 2019, respectively. The outstanding note from the direct borrowing contains a provision that in an event of default, the entire amount of payments become immediately due and a provision that Carter Bank a Trust may take possession of the collateralized vehicles and equipment and terminate the note.

North Carolina Drinking Water State Revolving Fund Loans:

In November 1999, Cleveland County Water entered into a direct borrowing agreement, with an interest rate of 2.55%, due in annual principal payments of \$74,840 through May 2021, with the State of North Carolina to finance a new water intake system. The balance of the loan amount was \$74,840 and \$149,681 as of June 30, 2020 and 2019, respectively. The loan is collateralized by the existing water treatment plant. Upon the occurrence of any event of default such as failure to make any installment payment, breach of conditions and terms of the financing agreement, occurrence of an event of nonappropriation, the lender may declare the unpaid principal due immediately and proceed by appropriate court action to enforce the performance of the contract.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

As of December 19, 2018, Cleveland County Water had been approved for a 20-year term loan from the North Carolina Drinking Water State Revolving Fund (DWSRF) in the amount of \$3,590,342 for Lattimore Area Drinking Water Improvements project. The balance of the loan amount was \$3,312,598 and \$1,211,733 as of June 30, 2020 and 2019, respectively. Repayments on the loan will be reflected in the final promissory note and will be for the actual funds borrowed. The approximate project completion date is November 1, 2020. Repayments begin on November 1st that is between 6 months and 12 months after the original project completion date. Annual interest of 1.53% begins to accrue from the date of project completion date. Promissory note has not yet been issued outlining collateral requirements and termination/default provisions.

As of March 25, 2020, Cleveland County Water had been approved for a 20-year term loan from the North Carolina Drinking Water State Revolving Fund (DWSRF) in the amount of \$7,560,000 for construction of Clearwell and High Service Pump Station. The repayable loan portion will be repaid at an interest rate of 2.16%. The balance of the loan amount was \$304,939 as of June 30, 2020. Repayments on the loan will be reflected in the final promissory note and will be for the actual funds borrowed.

Promissory note has not yet been issued outlining collateral requirements and termination/default provisions.

Year ending June 30,	Principal	Interest
2021	\$ 332,357	\$ 84,279
2022	228,965	53,051
2023	179,517	49,439
2024	179,517	46,692
2025	179,517	43,946
2026-2030	897,585	178,530
2031-2035	897,585	109,864
2036-2040	924,782	41,200
Total	<u>\$ 3,819,825</u>	<u>\$ 607,001</u>

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 3 – Detail Notes on All Funds and Account Groups – continued

During the years ended June 30, 2020 and 2019, the following changes occurred in long-term liabilities:

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020	Current Portion of Balances
By type of debt:					
Notes from direct borrowings	\$ 1,566,861	\$ 2,405,804	\$ 152,840	\$ 3,819,825	\$ 332,357
Capital lease	386,850	-	84,950	301,900	86,998
Net pension liability (LGERS)	768,876	57,228	-	826,104	-
OPEB liability	1,874,816	280,375	-	2,155,191	-
Compensated absences	212,012	162,849	123,279	251,582	123,279
Total	\$ 4,809,415	\$ 2,906,256	\$ 361,069	\$ 7,354,602	\$ 542,634

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019	Current Portion of Balances
By type of debt:					
Notes from direct borrowings	\$ 1,916,470	\$ 1,211,732	\$ 1,561,341	\$ 1,566,861	\$ 152,840
Capital lease	276,713	163,045	52,908	386,850	84,950
Net pension liability (LGERS)	454,345	314,531	-	768,876	-
OPEB liability	1,838,734	36,082	-	1,874,816	-
Compensated absences	199,880	139,330	127,198	212,012	127,198
Total	\$ 4,686,142	\$ 1,864,720	\$ 1,741,447	\$ 4,809,415	\$ 364,988

As of June 30, 2020, and 2019, Cleveland County Water had a legal debt margin of \$310,591,375 and \$281,505,939, respectively.

Note 4 – Related Organization

Cleveland County Water entered into an inter-local agreement with Rutherford County relating to the construction of the Hopewell project. The agreement provided that Rutherford County would fund up to \$192,085 or fifty percent of the total project cost. Cleveland County Water spent \$812,292 on the completed project through fiscal year 2009. Cleveland County Water received \$394,900 in funding through the year ended June 30, 2009. Additionally, per the agreement, Cleveland County Water will pay \$750 to Rutherford County for each tap set for the Hopewell project through 2028. There was one tap set in the fiscal year of 2019. No tap fees were set in the fiscal year 2020 due to Hopewell program ending.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 5 – Interlocal Agreement

Cleveland County Water entered into an interlocal agreement for management of the Town of Fallston local water supply system. During the period from July 1, 2019 through June 30, 2059, Cleveland County Water will sell water service to the Town of Fallston and will manage and operate its water distribution system. The agreement may thereafter be renewed for additional ten year terms. The annual lease payment for the water distribution system to be made to the Town of Fallston shall be used by the Town to satisfy the annual debt service payment to United States Department of Agriculture (USDA). The lease payment for the year ended June 30, 2020 was \$48,519. The ownership of Fallston water distribution system and customer base remains with the Town. The USDA loan maturity schedule, including principal and interest, represents a summary of future minimum lease payments and is as follows:

Year ending June, 30

2021	\$	64,973
2022		65,395
2023		64,800
2024		65,205
2025		64,593
2026-2030		325,478
2031-2035		324,555
2036-2040		325,128
2041-2045		324,055
2046-2050		326,163
2051-2055		327,100
2056-2059		<u>258,883</u>
Total	\$	<u>2,536,328</u>

Note 6 – Subsequent Events

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin.

In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce.

CLEVELAND COUNTY WATER

Notes to the Financial Statements – continued

June 30, 2020 and 2019

Note 6 – Subsequent Events – continued

Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

Cleveland County Water has evaluated events and transactions for potential recognition or disclosure through October 23, 2020, the date the financial statements were available to be issued.

Required
Supplementary Financial Data

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

- Schedule of Changes in the Total OPEB Liability and Related Ratios
- Schedule of the Proportionate Share of the Net Pension Liability (Asset) for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System

CLEVELAND COUNTY WATER

REQUIRED SUPPLEMENTARY INFORMATION

OTHER POSTEMPLOYMENT BENEFITS

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service cost at end of year	\$ 77,056	\$ 79,869	\$ 86,685
Interest	72,386	64,789	55,140
Changes of benefit terms	-	-	-
Differences between expected and actual experience	112,461	(2,526)	(1,160)
Changes of assumptions or other inputs	46,744	(68,062)	(115,428)
Benefit payments	<u>(28,272)</u>	<u>(37,988)</u>	<u>(36,504)</u>
Net change in Total OPEB Liability	280,375	36,082	(11,267)
Total OPEB Liability – beginning	<u>1,874,816</u>	<u>1,838,734</u>	<u>1,850,001</u>
Total OPEB Liability - ending	<u>\$ 2,155,191</u>	<u>\$ 1,874,816</u>	<u>\$ 1,838,734</u>
Covered-employee payroll	\$ 1,840,036	\$ 1,623,976	\$ 1,623,976
Total OPEB liability as a percentage of covered-employee payroll	117.13%	115.45%	113.22%

Notes to Schedule

Changes of assumptions or other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

<u>Fiscal year</u>	<u>Rate</u>
2020	3.50%
2019	3.89%
2018	3.56%

CLEVELAND COUNTY WATER

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

Last Seven Fiscal Years*

	2020	2019	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)(%)	0.03025%	0.03241%	0.02974%	0.03168%	0.03000%	0.03000%	0.03100%
Employer's proportion of the net pension liability (asset)(\$)	\$ 826,104	\$ 768,876	\$ 454,345	\$ 672,356	\$ 134,236	\$ (175,214)	\$ -
Employer's covered-employee payroll	\$ 1,962,117	\$ 1,906,743	\$ 1,713,689	\$ 1,720,900	\$ 1,642,546	\$ 1,628,175	\$ 1,480,099
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	42.10%	40.32%	26.51%	39.07%	8.17%	-10.76%	0.00%
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	94.18%	91.47%	98.09%	99.07%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30. Information is not available for fiscal years prior to 2014.

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

CLEVELAND COUNTY WATER

REQUIRED SUPPLEMENTARY INFORMATION

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

SCHEDULE OF CONTRIBUTIONS

Last Seven Fiscal Years*

	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 188,100	\$ 152,064	\$ 143,006	\$ 124,242	\$ 114,784	\$ 116,128	\$ 115,112
Contributions in relation to the contractually required contribution	188,100	152,064	143,006	124,242	114,784	116,128	115,112
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered-employee payroll	\$ 2,101,669	\$ 1,962,117	\$ 1,906,743	\$ 1,713,689	\$ 1,720,900	\$ 1,642,546	\$ 1,628,175
Contributions as a percentage of covered-employee payroll	8.95%	7.75%	7.50%	7.25%	6.67%	7.07%	7.07%

*Information is not available for fiscal years prior to 2014.

Other Supplementary Schedules

CLEVELAND COUNTY WATER

SCHEDULE OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP) – WATER FUND
 Year Ended June 30, 2020

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:				
Water charges	\$ 6,948,342	\$ 7,096,469	\$ 7,965,183	\$ 868,714
Tap connection charges	175,000	175,000	236,716	61,716
Total operating revenues	<u>7,123,342</u>	<u>7,271,469</u>	<u>8,201,899</u>	<u>930,430</u>
Nonoperating revenues (expenditures):				
Special district ad valorem tax	842,500	842,500	905,357	62,857
Restricted intergovernmental	-	-	231,935	231,935
Investment earnings	72,600	72,600	77,834	5,234
Local option sales tax	240,000	240,000	257,549	17,549
Fund balance appropriated	-	429,045	-	(429,045)
Miscellaneous	30,750	10,665,003	(232,320)	(10,897,323)
Total nonoperating revenues	<u>1,185,850</u>	<u>12,249,148</u>	<u>1,240,355</u>	<u>(11,008,793)</u>
Total revenues	<u>8,309,192</u>	<u>19,520,617</u>	<u>9,442,254</u>	<u>(10,078,363)</u>
Operating expenditures:				
Salaries and employee benefits	3,192,714	3,132,734	3,090,015	42,719
Administration:				
Professional services	107,475	170,775	169,746	1,029
Telephone and utilities	59,300	88,259	80,137	8,122
Repairs and maintenance	130,000	107,000	100,643	6,357
Postage	95,040	97,340	97,253	87
Insurance and bonds	55,015	55,420	55,416	4
Sewer collections	182,280	195,360	187,614	7,746
Other departmental expenditures	302,677	349,577	287,810	61,767
Total administration	<u>931,787</u>	<u>1,063,731</u>	<u>978,619</u>	<u>85,112</u>
Water plant:				
Professional services	62,000	32,000	31,849	151
Telephone and utilities	329,600	325,600	322,668	2,932
Repairs and maintenance	71,235	81,055	73,648	7,407
Materials and supplies	28,750	29,455	27,236	2,219
Chemicals	172,800	193,700	193,617	83
Contracted services	7,250	450	386	64
Other departmental expenditures	40,922	43,632	35,674	7,958
Total water plant	<u>712,557</u>	<u>705,892</u>	<u>685,078</u>	<u>20,814</u>
Water line maintenance:				
Telephone and utilities	70,200	82,770	78,362	4,408
Repairs and maintenance	79,450	68,675	55,089	13,586
Materials and supplies	355,500	355,500	420,425	(64,925)
Contracted services	179,200	161,875	159,587	2,288
Other departmental expenditures	909,105	871,295	836,809	34,486
Total water line maintenance	<u>1,593,455</u>	<u>1,540,115</u>	<u>1,550,272</u>	<u>(10,157)</u>

CLEVELAND COUNTY WATER

SCHEDULE OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP) – WATER FUND – CONTINUED
 Year Ended June 30, 2020

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Meter services:				
Fuel	\$ 26,000	\$ 26,000	\$ 19,955	\$ 6,045
Repairs and maintenance	7,750	7,750	375	7,375
Other departmental expenditures	45,200	45,200	28,877	16,323
Total meter services	<u>78,950</u>	<u>78,950</u>	<u>49,207</u>	<u>29,743</u>
Total operating expenses	<u>6,509,463</u>	<u>6,521,422</u>	<u>6,353,191</u>	<u>168,231</u>
Budgetary appropriations:				
Debt Service:				
Debt principal	152,842	152,842	152,840	2
Capital lease principal	84,950	84,950	84,950	-
Interest	17,092	17,092	51,034	(33,942)
Total debt service	<u>254,884</u>	<u>254,884</u>	<u>288,824</u>	<u>(33,940)</u>
Capital outlay	1,544,845	12,744,311	3,822,131	8,922,180
Total budgetary appropriations	<u>1,799,729</u>	<u>12,999,195</u>	<u>4,110,955</u>	<u>8,888,240</u>
Total expenditures and other uses	<u>8,309,192</u>	<u>19,520,617</u>	<u>10,464,146</u>	<u>9,056,471</u>
Revenues and appropriated fund balance over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	(1,021,892)	<u>\$ (1,021,892)</u>
Reconciling items:				
Capital outlay			3,664,043	
Debt principal			152,840	
Capital lease principal			84,950	
Decrease in deferred outflows of resources-pensions			(97,530)	
Increase in deferred outflows of resources-OPEB			158,072	
Increase in OPEB liability			(57,228)	
Increase in net pension liability			(280,375)	
Increase in deferred inflows of resources-unearned water sales			(14,753)	
Increase in deferred inflows of resources-pensions			(13,604)	
Decrease in deferred inflows of resources-OPEB			21,416	
Depreciation			<u>(1,524,702)</u>	
Change in net position			<u>\$ 1,071,237</u>	

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

Water Improvements Projects

Lattimore Tank

Schedule of Revenue, Expenditures and

Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2020

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Favorable (Unfavorable)
Lattimore Tank:					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures:					
Land acquisition	30,000	20,511	-	20,511	9,489
Capital outlay					
Engineering	314,700	314,700	-	314,700	-
Construction administration	228,900	41,175	77,054	118,229	110,671
Construction	3,046,742	855,858	2,071,108	2,926,966	119,776
Financial management	71,807	71,807	-	71,807	-
	<u>3,692,149</u>	<u>1,304,051</u>	<u>2,148,162</u>	<u>3,452,213</u>	<u>239,936</u>
Other financing sources and (uses):					
Loan proceeds from NCDENR	3,590,342	1,211,732	2,100,866	3,312,598	(277,744)
Transfers in (out)	101,807	393,738	(301,420)	92,318	(9,489)
	<u>3,692,149</u>	<u>1,605,470</u>	<u>1,799,446</u>	<u>3,404,916</u>	<u>(287,233)</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 301,419</u>	(348,716)	<u>\$ (47,297)</u>	<u>\$ (47,297)</u>
Fund balance, beginning			<u>301,419</u>		
Fund balance, ending			<u>\$ (47,297)</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

Water Improvements Projects

Asset Inventory and Assessment Study

Schedule of Revenue, Expenditures and

Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Asset Inventory and Assessment Study:					
Revenues:					
Restricted intergovernmental					
NC Water Infrastructure Grant	\$ 150,000	\$ 43,315	\$ 68,800	\$ 112,115	\$ (37,885)
	<u>150,000</u>	<u>43,315</u>	<u>68,800</u>	<u>112,115</u>	<u>(37,885)</u>
Expenditures:					
Professional services	155,250	52,865	64,500	117,365	37,885
Financial management	2,250	2,250	-	2,250	-
	<u>157,500</u>	<u>55,115</u>	<u>64,500</u>	<u>119,615</u>	<u>37,885</u>
Other financing sources and (uses):					
Transfers in (out)	7,500	11,800	(4,300)	7,500	-
	<u>7,500</u>	<u>11,800</u>	<u>(4,300)</u>	<u>7,500</u>	<u>-</u>
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund balance, beginning			-		
Fund balance, ending			<u>\$ -</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 Water Improvements Projects
 Kadesh Church Road
 Schedule of Revenue, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Kadesh Church Road:					
Revenues:					
Restricted intergovernmental					
NC Department of Transportation	\$ 86,100	\$ 1,886	\$ -	\$ 1,886	\$ (84,214)
	<u>86,100</u>	<u>1,886</u>	<u>-</u>	<u>1,886</u>	<u>(84,214)</u>
Expenditures:					
Capital outlay					
Engineering	4,500	1,886	-	1,886	2,614
Construction	81,600	-	-	-	81,600
	<u>86,100</u>	<u>1,886</u>	<u>-</u>	<u>1,886</u>	<u>84,214</u>
Other financing sources and (uses):					
Transfers in (out)	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	\$ <u>-</u>	\$ <u>-</u>	-	\$ <u>-</u>	\$ <u>-</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ -</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 Water Improvements Projects
 Oak Grove Road
 Schedule of Revenue, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Oak Grove Road:					
Revenues:					
Restricted intergovernmental					
NC Department of Transportation	\$ 206,800	\$ 24,950	\$ 132,074	\$ 157,024	\$ (49,776)
	<u>206,800</u>	<u>24,950</u>	<u>132,074</u>	<u>157,024</u>	<u>(49,776)</u>
Expenditures:					
Capital outlay					
Engineering	24,800	24,800	-	24,800	-
Construction	182,000	150	132,074	132,224	49,776
	<u>206,800</u>	<u>24,950</u>	<u>132,074</u>	<u>157,024</u>	<u>49,776</u>
Other financing sources and (uses):					
Transfers in (out)	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	\$ <u>-</u>	\$ <u>-</u>	-	\$ <u>-</u>	\$ <u>-</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ -</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 Water Improvements Projects
 US 74 Bypass Relocation 2707D
 Schedule of Revenue, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
US 74 Bypass Relocation 2707D:					
Revenues:					
Restricted intergovernmental					
U.S. Department of Transportation	\$ 64,320	\$ 37,912	\$ 3,880	\$ 41,792	\$ (22,528)
N.C. Department of Transportation	16,080	9,478	1,293	10,771	(5,309)
	<u>80,400</u>	<u>47,390</u>	<u>5,173</u>	<u>52,563</u>	<u>(27,837)</u>
Expenditures:					
Capital outlay					
Engineering	80,400	47,390	5,173	52,563	27,837
	<u>80,400</u>	<u>47,390</u>	<u>5,173</u>	<u>52,563</u>	<u>27,837</u>
Other financing sources and (uses):					
Transfers in (out)	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	\$ <u>-</u>	\$ <u>-</u>	-	\$ <u>-</u>	\$ <u>-</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ -</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 Water Improvements Projects
 US 74 Bypass Relocation 2707E
 Schedule of Revenue, Expenditures and
 Changes in Fund Balance - Budget and Actual
 Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
US 74 Bypass Relocation 2707E:					
Revenues:					
Restricted intergovernmental					
U.S. Department of Transportation	\$ 63,875	\$ 37,654	\$ 3,854	\$ 41,508	\$ (22,367)
N.C. Department of Transportation	15,968	9,414	1,284	10,698	(5,270)
	<u>79,843</u>	<u>47,068</u>	<u>5,138</u>	<u>52,206</u>	<u>(27,637)</u>
Expenditures:					
Capital outlay					
Engineering	79,843	47,068	5,138	52,206	27,637
	<u>79,843</u>	<u>47,068</u>	<u>5,138</u>	<u>52,206</u>	<u>27,637</u>
Other financing sources and (uses):					
Transfers in (out)	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	\$ <u>-</u>	\$ <u>-</u>	-	\$ <u>-</u>	\$ <u>-</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ -</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

Water Improvements Projects

Joe's Lake Road

Schedule of Revenue, Expenditures and

Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2020

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Favorable (Unfavorable)
Joe's Lake Road:					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:					
Capital outlay					
Construction	48,390	-	-	-	48,390
	<u>48,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,390</u>
Other financing sources and (uses):					
Transfers in (out)	48,390	-	-	-	(48,390)
	<u>48,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(48,390)</u>
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning			-		
			<u>-</u>		
Fund balance, ending			\$ -		
			<u>-</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

Water Improvements Projects

GIS/GPS

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
GIS/GPS:					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:					
Capital outlay					
Professional services	40,000	38,981	1,019	40,000	-
	<u>40,000</u>	<u>38,981</u>	<u>1,019</u>	<u>40,000</u>	<u>-</u>
Other financing sources and (uses):					
Transfers in (out)	40,000	38,981	1,019	40,000	-
	<u>40,000</u>	<u>38,981</u>	<u>1,019</u>	<u>40,000</u>	<u>-</u>
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning			-		
			<u>-</u>		
Fund balance, ending			\$ -		
			<u>-</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

Water Improvements Projects

Replacement of Bridge #76 over Buffalo Creek on NC Highway 150 Waterline Relocation

Schedule of Revenue, Expenditures and

Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Replacement of Bridge #76 over Buffalo Creek on NC Highway 150 Waterline Relocation:					
Revenues:					
Restricted intergovernmental					
NC Department of Transportation	\$ 20,100	\$ -	\$ 15,899	\$ 15,899	\$ (4,201)
	<u>20,100</u>	<u>-</u>	<u>15,899</u>	<u>15,899</u>	<u>(4,201)</u>
Expenditures:					
Capital outlay					
Engineering	20,100	-	15,899	15,899	4,201
Construction	38,150	-	-	-	38,150
	<u>58,250</u>	<u>-</u>	<u>15,899</u>	<u>15,899</u>	<u>42,351</u>
Other financing sources and (uses):					
Transfers in (out)	38,150	-	-	-	(38,150)
	<u>38,150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(38,150)</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			-		
Fund balance, ending			<u>\$ -</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

Water Improvements Projects

Clearwell and High Service Pump Station Project

Schedule of Revenue, Expenditures and

Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2020

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Favorable (Unfavorable)
Clearwell and High Service Pump Station:					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures:					
Capital outlay					
Engineering	450,000	-	304,939	304,939	145,061
Construction	7,095,000	-	-	-	7,095,000
Legal	15,000	-	-	-	15,000
Financial management	151,200	-	-	-	151,200
	<u>7,711,200</u>	<u>-</u>	<u>304,939</u>	<u>304,939</u>	<u>7,406,261</u>
Other financing sources and (uses):					
Loan proceeds from NCDENR	7,560,000	-	304,939	304,939	(7,255,061)
Transfers in (out)	151,200	-	-	-	(151,200)
	<u>7,711,200</u>	<u>-</u>	<u>304,939</u>	<u>304,939</u>	<u>(7,406,261)</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			-		
Fund balance, ending			<u>\$ -</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

Water Improvements Projects

Greenway Project

Schedule of Revenue, Expenditures and

Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Greenway:					
Revenues:					
Grant proceeds	\$ 5,000	\$ -	\$ 5,000	\$ 5,000	\$ -
	<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Expenditures:					
Land acquisition	79,195	-	104,641	104,641	(25,446)
Land and area maintenance	25,000	-	24,654	24,654	346
Professional services	31,000	-	31,352	31,352	(352)
	<u>135,195</u>	<u>-</u>	<u>160,647</u>	<u>160,647</u>	<u>(25,452)</u>
Other financing sources and (uses):					
Transfers in (out)	130,195	-	155,647	155,647	25,452
	<u>130,195</u>	<u>-</u>	<u>155,647</u>	<u>155,647</u>	<u>25,452</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ -</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

Water Improvements Projects

Centrally Located Operations Center

Schedule of Revenue, Expenditures and

Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Centrally Located Operations Center:					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:					
Capital outlay					
Professional services	9,500	-	8,740	8,740	760
	<u>9,500</u>	<u>-</u>	<u>8,740</u>	<u>8,740</u>	<u>760</u>
Other financing sources and (uses):					
Transfers in (out)	9,500	-	8,740	8,740	(760)
	<u>9,500</u>	<u>-</u>	<u>8,740</u>	<u>8,740</u>	<u>(760)</u>
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning			-		
			<u>-</u>		
Fund balance, ending			\$ -		
			<u>-</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

Water Improvements Projects

Weir Replacement Project

Schedule of Revenue, Expenditures and

Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2020

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Favorable (Unfavorable)
Weir Replacement:					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:					
Capital outlay					
Professional services	100,000	-	31,831	31,831	68,169
	<u>100,000</u>	<u>-</u>	<u>31,831</u>	<u>31,831</u>	<u>68,169</u>
Other financing sources and (uses):					
Transfers in (out)	100,000	-	31,831	31,831	(68,169)
	<u>100,000</u>	<u>-</u>	<u>31,831</u>	<u>31,831</u>	<u>(68,169)</u>
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning			-		
Fund balance, ending			\$ -		
			<u>-</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

Water Improvements Projects

Risk and Resilience Assessment and Emergency Response Plans

Schedule of Revenue, Expenditures and

Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Favorable (Unfavorable)</u>
Risk and Resilience Assessment and Emergency Response Plans:					
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:					
Capital outlay					
Professional services	99,830	-	-	-	99,830
	<u>99,830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,830</u>
Other financing sources and (uses):					
Transfers in (out)	99,830	-	-	-	(99,830)
	<u>99,830</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(99,830)</u>
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund balance, beginning			-		
Fund balance, ending			\$ -		

CLEVELAND COUNTY WATER

Schedule of Ad Valorem Taxes Receivable

June 30, 2020

Fiscal Year	July 1, 2019	Additions and Adjustments	Collections and Credits	June 30, 2020
2019-2020	\$ -	\$ 829,223	\$ 804,568	\$ 24,655
2018-2019	17,603	-	9,458	8,145
2017-2018	7,473	-	3,035	4,438
2016-2017	4,153	-	1,612	2,541
2015-2016	3,221	-	1,353	1,868
2014-2015	2,499	-	1,222	1,277
2013-2014	1,903	-	170	1,733
2012-2013	1,742	-	126	1,616
2011-2012	1,446	-	81	1,365
2010-2011	1,353	-	68	1,285
2009-2010	1,123	-	1,123	-
	<u>\$ 42,516</u>	<u>\$ 829,223</u>	<u>\$ 822,816</u>	48,923
Less allowance for uncollectible taxes				<u>-</u>
Ad Valorem taxes receivable – net				<u>\$ 48,923</u>
Reconcilement with revenues:				
Ad Valorem Taxes – Water Fund				\$ 905,357
Less interest, penalties, and adjustments				<u>82,541</u>
Total collections and credits				<u>\$ 822,816</u>

CLEVELAND COUNTY WATER

SCHEDULE OF ANALYSIS OF CURRENT TAX LEVY

Year Ended June 30, 2020

	<u>Property Valuation</u>		<u>Amount of Levy</u>	<u>Registered Motor Vehicles</u>	<u>Property Excluding Registered Motor Vehicles</u>
Original levy:					
Property taxed at current year's rate	\$ 3,540,010,000	0.02%	\$ 708,002	\$ -	\$ 708,002
Motor vehicles taxed at current year's rate	<u>390,130,000</u>	0.02%	<u>78,026</u>	<u>78,026</u>	<u>-</u>
Total	<u>3,930,140,000</u>		<u>786,028</u>	<u>78,026</u>	<u>708,002</u>
Discoveries:					
Current year taxes	217,105,000		43,421	-	43,421
Abatements:					
	<u>(1,130,000)</u>		<u>(226)</u>	<u>(9)</u>	<u>(217)</u>
Total property valuation	<u>\$ 4,146,115,000</u>				
Net levy			829,223	78,017	751,206
Less uncollected tax at June 30, 2020			<u>24,655</u>	<u>-</u>	<u>24,655</u>
Current year's taxes collected			<u>\$ 804,568</u>	<u>\$ 78,017</u>	<u>\$ 726,551</u>
Percent of current year levy collected			<u>97.027%</u>	<u>100.000%</u>	<u>96.718%</u>

CLEVELAND COUNTY WATER

SCHEDULE OF ANALYSIS OF CURRENT TAX LEVY – CONTINUED

Year Ended June 30, 2020

Secondary Market Disclosures:

Assessed Valuation:

Assessment ratio		100%
Real property	\$	3,359,862,347
Personal property		390,130,000
Public service companies		<u>180,147,653</u>
Total assessed valuation		3,930,140,000
Tax rate per \$100		<u>0.02</u>
Levy	\$	<u><u>786,028</u></u>

CLEVELAND COUNTY WATER

SCHEDULE OF TEN LARGEST TAXPAYERS

Year Ended June 30, 2020

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2019 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Clearwater Paper	Manufacturing	\$ 270,993,428	6.90%
Southern Power	Utilities	243,578,797	6.20%
Duke	Utilities	107,839,608	2.74%
Zf Transmissions	Manufacturing	54,778,805	1.39%
KSM Casting	Manufacturing	54,745,510	1.39%
Ticona Polymers	Manufacturing	52,043,327	1.32%
Eaton	Manufacturing	49,087,349	1.25%
Greenheck	Manufacturing	38,368,696	0.98%
Hanesbrands	Manufacturing	29,811,655	0.76%
ABB Motors & Mechanical	Manufacturing	26,931,427	0.69%
		<u>\$ 928,178,602</u>	<u>23.62%</u>

Compliance Section



Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Chairman and Board of Commissioners
Cleveland County Water
Lawndale, North Carolina

We have audited 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, the statements of fund net position of Cleveland County Water (the "Company") as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended and the related notes to the financial statements, which collectively comprise Cleveland County Water's basic financial statements, and have issued our report thereon dated October 23, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson Price Sprinkle PA

Asheville, North Carolina
October 23, 2020



**Independent Auditors' Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; In Accordance With OMB Uniform Guidance
and the State Single Audit Implementation Act**

The Chairman and Board of Commissioners
Cleveland County Water
Lawndale, North Carolina

Report on Compliance for Each Major Federal Program

We have audited Cleveland County Water, North Carolina's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Cleveland County Water's major federal programs for the year ended June 30, 2020. Cleveland County Water's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Cleveland County Water's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Those standards, Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cleveland County Water's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Cleveland County Water's compliance.

Opinion on Each Major Federal Program

In our opinion, Cleveland County Water complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of Cleveland County Water is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cleveland County Water's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Cleveland County Water's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Johnson Price Sprinkle PA

Asheville, North Carolina
October 23, 2020

Section I. Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance to GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(s) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(s) identified? _____ yes X none reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major Federal programs:

CFDA #	Name of Federal Program or Cluster
66.468	Drinking Water State Revolving Fund Cluster Capitalization Grants For Drinking Water State Revolving Funds

Dollar threshold to distinguish between Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? _____yes X no

Cleveland County Water

Schedule of Findings and Questioned Costs – continued

Year Ended June 30, 2020

Section II. Financial Statement Findings

None reported.

Section III. Federal Award Findings and Questioned Costs

None reported.

Cleveland County Water

Summary Schedule of Prior Year Audit Findings

Year Ended June 30, 2020

Finding: 2019-001

Status: Corrected.

CLEVELAND COUNTY WATER
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2020

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Federal (Direct & Pass-through) Expenditures	State Expenditures	Pass-through to Subrecipients	Local Expenditures
Federal Grants:						
Cash programs:						
<u>U.S. Department of Transportation</u>						
Passed-through N.C. Department of Transportation						
Highway Planning and Construction Cluster						
Highway Planning and Construction	20.205	34497.1.FS6	\$ 3,880	\$ 1,293	\$ -	\$ -
Highway Planning and Construction	20.205	34497.1.FS7	3,854	1,284	-	-
Total Highway Planning and Construction Cluster			<u>7,734</u>	<u>2,577</u>	<u>-</u>	<u>-</u>
Total U.S. Department of Transportation			<u>7,734</u>	<u>2,577</u>	<u>-</u>	<u>-</u>
Non-cash programs:						
<u>U.S. Environmental Protection Agency</u>						
Passed-through N.C. Department of Environmental Quality						
Drinking Water State Revolving Fund Cluster						
Capitalization Grants for Drinking Water State Revolving Funds						
	66.468	H-LRX-F-18-1929	2,148,162	-	-	-
Capitalization Grants for Drinking Water State Revolving Funds	66.468	H-SRF-F-20-1973	304,939	-	-	-
Total Drinking Water State Revolving Fund Cluster			<u>2,453,101</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total U.S. Environmental Protection Agency			<u>2,453,101</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total federal awards			<u>2,460,835</u>	<u>2,577</u>	<u>-</u>	<u>-</u>
State Grants:						
<u>N.C. Department of Environmental Quality</u>						
Division of Water Infrastructure						
Asset Inventory and Assessment Project		H-AIA-D-17-0096	-	64,500	-	-
Total N.C. Department of Environmental Quality			<u>-</u>	<u>64,500</u>	<u>-</u>	<u>-</u>
Total State awards			<u>-</u>	<u>64,500</u>	<u>-</u>	<u>-</u>
Total federal and State awards			<u>\$ 2,460,835</u>	<u>\$ 67,077</u>	<u>\$ -</u>	<u>\$ -</u>

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of Cleveland County Water under the programs of the federal government and the State of North Carolina for the year ended June 30, 2020. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of Cleveland County Water, it is not intended to and does not present the financial position, changes in net position, or cash flows of Cleveland County Water.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Cleveland County Water has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3: Loans Outstanding

Cleveland County Water had the following loan balances outstanding as of June 30, 2020 for loans through the Drinking Water State Revolving Funds awards reported above. The balances of the loans outstanding as of June 30, 2020 consist of:

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Loan Balance Outstanding
Drinking Water State Revolving Fund Cluster			
Capitalization Grants for Drinking Water State Revolving Funds			
	66.468	H-LRX-F-18-1929	\$ <u>3,312,598</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468	H-SRF-F-20-1973	\$ <u>304,939</u>