

CLEVELAND COUNTY WATER

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

CLEVELAND COUNTY WATER

ORGANIZATION AND BUSINESS

For the Year Ended June 30, 2023

BOARD OF COMMISSIONERS

Donald Melton, Chairman

Dewey Cook, Vice Chairman

Bill Cameron, Secretary

Amy Elliott Bridges

Tony Brooks

Bruce Martin

CJ Pete Pedersen

ADMINISTRATIVE AND FINANCIAL STAFF

Brad Cornwell, General Manager

Ginger Fern, Finance Director

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FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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MARTIN STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Cleveland County Water as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Cleveland County Water's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Cleveland County Water as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Cleveland County Water, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a bases for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cleveland County Water's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material statement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgement and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Cleveland County Water's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cleveland County Water's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cleveland County Water's basic financial statements. The budgetary schedules, as well as the 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary 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, 2023 on our consideration of Cleveland County Water's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of 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 Cleveland County Water's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cleveland County Water's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.

Hickory, North Carolina

October 23, 2023

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Management's Discussion and Analysis

Management's Discussion and Analysis ("MD&A") provides a narrative for Cleveland County Water's financial activities for the fiscal year ended June 30, 2023. The information complements the data presented in the financial statements and is to be used to enhance the reader's understanding of Cleveland County Water's financial performance.

Financial Highlights

- Cleveland County Water's basic financial statements consist of a single enterprise fund.
- At June 30, 2023, Cleveland County Water's assets and deferred outflows exceeded its liabilities and deferred inflows by \$46,487,906.
- At June 30, 2023, Cleveland County Water's unrestricted net position was \$6,455,001.

Overview of the Financial Statements

This MD&A serves as an introduction to Cleveland County Water'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 Cleveland County Water.

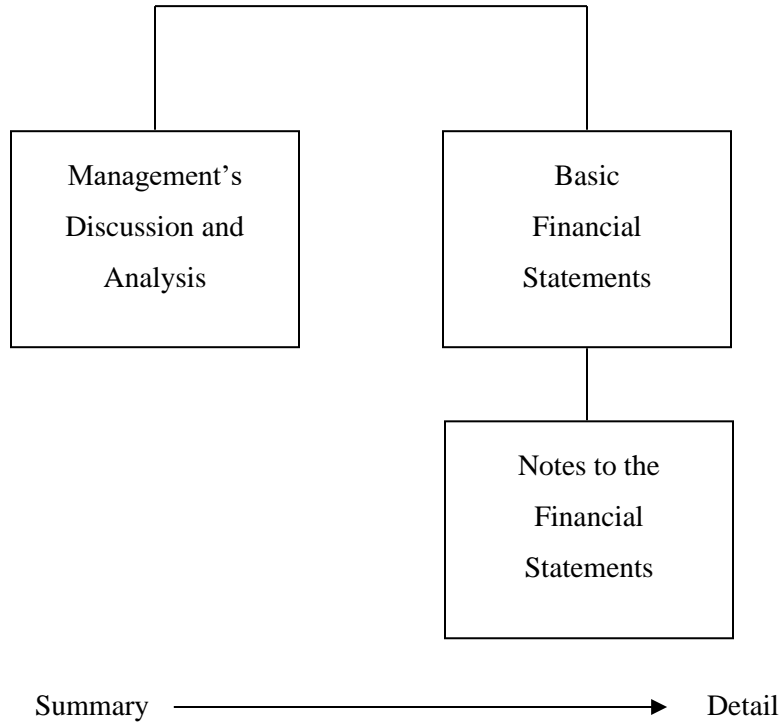
Basic Financial Statements

Cleveland County Water 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 Cleveland County Water's single proprietary fund that focuses on the business activities of the enterprise. The statements are designed to provide a broad overview of Cleveland County Water's finances, operations and cash flow, similar in format to private sector business statements, and provide short and long-term information about Cleveland County Water'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 Cleveland County Water's actual revenue and expense amounts compare to amounts budgeted. Supplemental information can be found on pages 37 to 69 of these financial statements.

Required Components of Annual Financial Report

Figure 1



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.

Budget Highlights

Cleveland County Water'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 2023, Cleveland County Water made various amendments to its formal budget. The activities of Cleveland County Water 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:

Cleveland County Water's Net Position

Figure 2

	<u>June 30</u>	
	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 14,599,783	\$ 16,434,884
Capital assets	53,347,289	43,528,387
Deferred outflows of resources	<u>1,644,304</u>	<u>1,403,181</u>
Total assets and deferred outflows of resources	<u>69,591,376</u>	<u>61,366,452</u>
Long-term liabilities outstanding	19,206,139	14,794,268
Other liabilities	3,143,704	2,258,961
Deferred inflows of resources	<u>763,283</u>	<u>1,102,580</u>
Total liabilities and deferred inflows of resources	<u>23,113,126</u>	<u>18,155,809</u>
Net position:		
Net investment in capital assets	40,032,905	31,799,657
Unrestricted – Board-designated	2,752,480	2,153,456
Unrestricted	<u>3,702,521</u>	<u>9,271,595</u>
Total Net Position	<u>\$ 46,487,906</u>	<u>\$ 43,224,708</u>

Cleveland County Water's net position increased by approximately \$3,263,000 for the year ended June 30, 2023. Net investment in capital assets increased by approximately \$8,233,000 during the year ended June 30, 2023. Cleveland County Water funded the majority of the increase for the year ended June 30, 2023 through operations and general revenues.

Unrestricted net position represents the excess of assets and deferred outflows over liabilities and deferred inflows that Cleveland County Water can utilize in future periods. Unrestricted net position decreased for the year ended June 30, 2023, from approximately \$11,425,000 in 2022 to approximately \$6,455,000 in 2023.

The following is a summary of changes in net position:

Cleveland County Water's Changes in Net Position

Figure 3

	For the Years Ended June 30	
	2023	2022
Revenues:		
Operating revenue	\$ 9,223,140	\$ 8,661,964
Nonoperating revenue	3,468,103	2,294,856
Total Revenues	12,691,243	10,956,820
Expenses:		
Operating expenses	9,379,630	8,452,400
Interest on long-term debt	48,355	53,627
Nonoperating expenses	60	180
Total Expenses	9,428,045	8,506,207
Change in Net Position	3,263,198	2,450,613
Net Position, July 1	43,224,708	40,774,095
Net Position, June 30	\$ 46,487,906	\$ 43,224,708

Included in non-operating revenues is approximately \$1,093,000 in special district ad valorem taxes for the year ended June 30, 2023. Cleveland County Water 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 revenue of Cleveland County Water represents various customer charges for services. Operating revenue increased in 2023, from approximately \$8,700,000 in 2022 to approximately \$9,200,000 in 2023. Operating expenses increased approximately \$927,000 for the year ended June 30, 2023.

Capital Assets

Cleveland County Water's investment in capital assets net of accumulated depreciation was approximately \$53,300,000 as of June 30, 2023. During 2023, construction activity related primarily to plant and distribution improvements and equipment. Of the total 2023 additions of approximately \$11,300,000, approximately 11.0% was expended for water and plant distribution systems, 86.0% was expended for construction in progress, and the remaining 3.0% was related to land purchases and plant and distribution equipment.

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

Cleveland County Water’s Capital Assets

Figure 4

	June 30	
	2023	2022
Land and land easements	\$ 1,482,528	\$ 1,472,928
Construction in progress	16,106,184	6,339,162
Land improvements and tank sites	526,562	536,890
Plant and distribution system	33,285,217	33,548,149
Buildings – administrative	234,345	246,145
Administrative equipment	28,397	19,233
Plant and distribution equipment	1,588,212	1,254,250
Meter services equipment	10,074	22,981
Maintenance building	84,302	84,861
Leased assets	1,468	3,788
Total	\$ 53,347,289	\$ 43,528,387

Other Long-Term Liabilities

Cleveland County Water continues to pay down the balance of long-term liabilities relating to loans and general obligation bonds. As of June 30, 2023, debt consists of notes from direct borrowings. There were additional borrowings that increased long-term debt by approximately \$4,379,000 in the year ended June 30, 2023. Long-term debt decreased by approximately \$168,000 in the year ended June 30, 2023. Cleveland County Water’s total debt outstanding, as of June 30, 2023 was approximately \$15,810,000. The remaining portion of long-term liabilities consists of installment purchases totaling approximately \$34,000, as of June 30, 2023; leases totaling approximately \$1,500 as of June 30, 2023; net pension liability totaling approximately \$1,470,000, as of June 30, 2023; other post-employment benefits liability totaling approximately \$2,590,000 as of June 30, 2023; and compensated absences liability totaling approximately \$229,000 as of June 30, 2023.

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

Economic Factors and Next Year’s Budget

Cleveland County Water 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. Cleveland County Water 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. Cleveland County Water is currently working on interconnections with two municipalities that could lead to intermittent increases of water supply/sale to those towns.

Over the past year, Cleveland County Water has seen tremendous increases in the costs of water pipeline materials, thus a significant increase for that line item in the FY 2024 budget. Recommendations were made for the FY 2024 budget for customer tap fees to increase due to the price increases with the specific materials associated with this function.

The budget line item for local option sales tax revenue is expected to increase with FY 2024 due to a couple year increases. These funds will be directed towards the Greenway project.

Requests for Information

This report is designed to provide an overview of Cleveland County Water'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, NC 28090

CLEVELAND COUNTY WATER

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2023

	2023
Assets:	
Current assets:	
Cash and cash equivalents	\$ 5,216,106
Investments	2,752,480
Accounts receivable – customers, net	1,113,198
Taxes receivable	50,671
Grants and awards receivable	887,483
Lease receivables	4,408
Other receivables	469,194
Inventories	720,371
Prepaid expenses	99,468
Restricted cash and cash equivalents	3,286,404
Total current assets	14,599,783
Non-current assets:	
Lease receivables, non-current	9,656
Capital assets and right to use assets:	
Land and land easements	1,482,528
Construction in progress	16,106,184
Land improvements and tank sites	646,507
Plant and distribution	66,937,327
Meter services equipment	177,912
Buildings	622,708
Equipment	267,258
Less: accumulated depreciation	(32,894,603)
Right to use assets	2,536
Less: accumulated amortization	(1,068)
Capital assets and right to use assets, net	53,347,289
Total non-current assets	53,356,945
Total assets	67,956,728
Deferred Outflows of Resources:	
Pension deferrals	962,048
OPEB deferrals	682,256
Total deferred outflows of resources	1,644,304

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

CLEVELAND COUNTY WATER

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2023

	2023
Liabilities:	
Current liabilities:	
Current portion of long-term debt	682,730
Current portion of installment purchase financing	34,451
Current portion of lease liability	536
Accounts payable	1,407,397
Accrued compensation	34,887
Compensated absences	212,100
Accrued interest on long-term debt	9,454
Other payables	7,213
Liability payable from restricted assets:	
Customer deposits	754,936
Total current liabilities	3,143,704
Other non-current liabilities:	
Long-term debt	15,127,155
Lease liability	980
Compensated absences	17,228
Net pension liability	1,470,720
Total OPEB liability	2,590,056
Total other non-current liabilities	19,206,139
Total liabilities	22,349,843
Deferred Inflows of Resources:	
Unavailable water sales	92,802
Pension deferrals	57,036
OPEB deferrals	599,802
Leases	13,643
Total deferred inflows of resources	763,283
Net Position:	
Net investment in capital assets	40,032,905
Unrestricted – Board-designated	2,752,480
Unrestricted	3,702,521
Total net position	\$ 46,487,906

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

CLEVELAND COUNTY WATER

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2023

	<u>2023</u>
Operating Revenues:	
Water charges	\$ 8,867,425
Tap connection charges	<u>355,715</u>
Total operating revenue	<u>9,223,140</u>
Operating Expenses:	
Salaries and employee benefits	3,498,647
Administrative	1,042,828
Water plant	790,497
Water line maintenance	1,967,520
Meter services	51,717
Greenway	179,337
Other operating expenses	281,353
Depreciation and amortization	<u>1,567,731</u>
Total operating expenses	<u>9,379,630</u>
Operating income (loss)	<u>(156,490)</u>
Non-Operating Income (Expenses):	
Special district ad valorem tax	1,092,731
Restricted intergovernmental	1,505,000
Investment earnings	173,575
Lease revenue	4,025
Interest revenue – leases	533
Local option sales tax	402,217
Miscellaneous income	245,261
Gain (loss) on sale of capital assets	44,761
Interest on long-term debt	(48,355)
Interest expense – leases	<u>(60)</u>
Total non-operating income	<u>3,419,688</u>
Change in net position	3,263,198
Net Position:	
Beginning of year, July 1	<u>43,224,708</u>
End of year, July 1	<u>\$ 46,487,906</u>

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

CLEVELAND COUNTY WATER

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2023

	2023
Cash Flows from Operating Activities:	
Cash received from customers	\$ 9,224,997
Cash paid for goods and services	(4,060,336)
Cash paid to employees and benefits	<u>(3,299,716)</u>
Net cash provided (used) by operating activities	<u>1,864,945</u>
 Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(11,665,262)
Proceeds from disposal of capital assets	323,390
Proceeds from long-term debt	4,379,262
Principal paid on long-term debt	(168,462)
Principal paid on installment purchase financing	(91,354)
Principal paid on leases	(2,324)
Interest paid on long-term debt & leases	(49,491)
Special district ad valorem tax	1,086,923
Federal and state grants	1,539,399
Non-operating revenues	<u>651,879</u>
Net cash provided (used) by capital and related financing activities	<u>(3,996,040)</u>
 Cash Flows from Investing Activities:	
Interest received	<u>173,575</u>
Net change in cash and cash equivalents	(1,957,520)
 Cash and Cash Equivalents:	
Beginning of year, July 1	<u>13,212,510</u>
End of year, June 30	<u>\$ 11,254,990</u>

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

CLEVELAND COUNTY WATER

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2023

	2023
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (156,490)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	1,567,731
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Accounts receivable – customers, net	72,346
Other receivables	(92,743)
Inventories	(46,004)
Prepaid expenses	(84,468)
Deferred outflows of resources – pensions	(294,243)
Deferred outflows of resources – OPEB	53,120
Accounts payable and other payables	383,388
Accrued compensation	7,557
Compensated absences	(13,087)
Customer deposits	20,030
Net pension liability	1,031,038
OPEB liability	(248,358)
Deferred inflows of resources – unavailable water sales	2,224
Deferred inflows of resources – pensions	(608,757)
Deferred inflows of resources – OPEB	271,661
Total adjustments	2,021,435
Net cash provided (used) by operating activities	\$ 1,864,945

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

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CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

1. Summary of Significant Accounting Policies

The accounting policies of Cleveland County Water 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 (7) 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.

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

Cleveland County Water reports one 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 FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgetary Data

Annual budgets are adopted on a basis consistent with provisions of the North Carolina Local Government Budget and Fiscal Control Act, which is the modified accrual method of accounting. All annual appropriations lapse at fiscal year-end.

Cleveland County Water begins developing its budget in the second quarter of each year and the Board of Directors approves the budget in early June after public hearings are held.

Budgeted revenues are reflected by source and budgeted expenses by department. On a periodic basis, as required by changing conditions, the budgeted amounts are amended. The budgeted amounts shown in the supplemental schedules reflect the governing board's amendments through the fiscal year-end. Expenditures may not legally exceed appropriations at the department level.

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

Deposits and Investments

All deposits of the District 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 association whose principal office is located in North Carolina. Also, the District may establish time deposit accounts such as money market accounts and certificates of deposit.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

State law [G.S. 159-30] 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").

Cleveland County Water's investments with a maturity of more than one year at acquisition and non-money market investments are reported at cost or amortized cost, which approximates their fair value as determined by quoted market prices. The NCCMT Government Portfolio, an SEC-registered (2a-7) money market fund, is measured at fair market value.

Cash and Cash Equivalents

Cleveland County Water's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted Assets

Customer deposits held by Cleveland County Water before any services were supplied are restricted to the service for which the deposits were collected. The unexpended debt proceeds are classified as restricted because their use is restricted to the purpose for which the debt was awarded.

	<u>2023</u>
Customer deposits	\$ 754,936
Unspent debt proceeds	<u>2,531,468</u>
Total restricted cash	<u>\$ 3,286,404</u>

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 \$435,440 as of June 30, 2023.

Cleveland County Water's grants and awards receivable are from various grantor agencies for reimbursements not received at year-end totaled \$887,483 as of June 30, 2023.

Allowance for Doubtful Accounts

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

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

Lease Receivable

Cleveland County Water's lease receivable is measured at the present value of lease payments expected to be received during the lease term.

A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

Inventory and Prepaid Items

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the Statement of Net Position and expensed as the items are used.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by Cleveland County Water as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair market value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment are depreciated using the straight-line method by groups or classes of property over the following expected service lives:

	<u>Years</u>
Land and land improvements	15 -50
Plant and distribution	3-50
Meter services equipment	3-6
Buildings	7-50
Equipment	3-10

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

Right to Use Assets

Cleveland County Water has recorded right to use lease assets as a result of implementing GASB 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net assets that applies to future periods and so will not be recognized as an expense or expenditure until then. Cleveland County Water has two items that meet these criteria, pension related deferrals and OPEB related deferrals. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net assets that applies to future periods and so will not be recognized as revenue until then. Cleveland County Water has four items that meet these criteria in the current year – unavailable water sales, leases, pension related deferrals, and OPEB related deferrals.

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 96 hours of sick leave each year, accruing at eight (8) hours per month. 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. Since Cleveland County Water does not have any obligation for the accumulated sick leave until it is taken, no accrual for sick leave has been made.

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.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

Net Position

Net position in the proprietary fund financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Net position classified as net investment in capital assets, consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

F. Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with Cleveland County Water’s principal ongoing operations, which is the sale of water for its customers. Cleveland County Water also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expense for Cleveland County Water includes the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

G. 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.

H. 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 liability, 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.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

2. Details 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 (2) 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.

As of June 30, 2023, Cleveland County Water's deposits had a carrying amount of \$8,500,735 and a bank balance of \$8,561,231. Of the June 30, 2023 bank balance, \$250,000 was covered by Federal Depository Insurance and \$8,311,231 was covered by collateral held under the pooling method. Cleveland County Water had \$1,775 cash on hand as of June 30, 2023.

Investments

As of June 30, 2023, Cleveland County Water had \$2,752,480 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's and AAAMf by Moody's Investor Service. Cleveland County Water has no policy regarding credit risk.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

Board-Designated Reserves

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

	2023
Capital Reserve (NCCMT)	\$ 2,752,480
Total Board-designated reserves	\$ 2,752,480

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:

	2023
Accounts receivable - customers - allowance for doubtful accounts	\$ 38,910

Lease Receivables

In July 2021, Cleveland County Water entered into a lease with a wireless internet provider. Under the lease, the wireless internet provider pays Cleveland County Water \$400 per month for sixty (60) months in exchange for using elevated storage tanks in and around Cleveland County to attach antennas. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 3.25%. In fiscal year 2023, Cleveland County Water recognized \$4,025 of lease revenue and \$533 of interest revenue under the lease.

Year Ending June 30	Lease Payments		
	Principal Payments	Interest Payments	Total
2024	\$ 4,408	\$ 392	\$ 4,800
2025	4,554	246	4,800
2026	4,704	96	4,800
2027	398	1	399
Total	\$ 14,064	\$ 735	\$ 14,799

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

Capital Assets

Capital asset activity for Cleveland County Water for the year ended June 30, 2023 is as follows:

	Balance July 1, 2022	Increases	Decreases	Transfers	Balance June 30, 2023
Non-Depreciable Assets:					
Land	\$ 1,472,928	\$ -	\$ -	\$ 9,600	\$ 1,482,528
Construction in progress	<u>6,339,162</u>	<u>10,477,430</u>	<u>(274,169)</u>	<u>(436,239)</u>	<u>16,106,184</u>
Total non-depreciable assets	<u>7,812,090</u>	<u>10,477,430</u>	<u>(274,169)</u>	<u>(426,639)</u>	<u>17,588,712</u>
Depreciable Assets:					
Land improvements and tank sites	646,507	-	-	-	646,507
Plant and distribution system	61,092,337	842,129	-	426,639	62,361,105
Buildings - administrative	458,774	-	-	-	458,774
Administrative equipment	283,182	-	(15,924)	-	267,258
Plant and distribution equipment	4,272,364	345,703	(41,845)	-	4,576,222
Meter services equipment	177,912	-	-	-	177,912
Maintenance building	<u>163,934</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>163,934</u>
Total depreciable assets	<u>67,095,010</u>	<u>1,187,832</u>	<u>(57,769)</u>	<u>426,639</u>	<u>68,651,712</u>
Less Accumulated Depreciation:					
Land improvements and tank sites	107,599	12,346	-	-	119,945
Plant and distribution system	27,787,509	1,288,379	-	-	29,075,888
Buildings - administrative	212,629	11,800	-	-	224,429
Administrative equipment	236,579	15,552	(13,270)	-	238,861
Plant and distribution equipment	2,804,448	225,407	(41,845)	-	2,988,010
Meter services equipment	157,831	10,007	-	-	167,838
Maintenance building	<u>75,906</u>	<u>3,726</u>	<u>-</u>	<u>-</u>	<u>79,632</u>
Total accumulated depreciation	<u>31,382,501</u>	<u>1,567,217</u>	<u>(55,115)</u>	<u>-</u>	<u>32,894,603</u>
Total depreciable assets, net	<u>35,712,509</u>	<u>(379,385)</u>	<u>(2,654)</u>	<u>426,639</u>	<u>35,757,109</u>
Right to Use Assets:					
Leased equipment	9,679	-	(7,143)	-	2,536
Less Accumulated Amortization:					
Leased equipment	<u>5,891</u>	<u>514</u>	<u>(5,337)</u>	<u>-</u>	<u>1,068</u>
Right to use assets, net	<u>3,788</u>	<u>\$ (514)</u>	<u>\$ (1,806)</u>	<u>\$ -</u>	<u>1,468</u>
Capital and right to use assets, net	<u>\$ 43,528,387</u>				<u>\$ 53,347,289</u>

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

Net Investment in Capital Assets

The total net investment in capital assets is composed of the following elements:

	<u>2023</u>
Capital assets, net	\$ 53,347,289
Total debt, gross	(15,845,852)
Add back:	
Unspent debt proceeds	<u>2,531,468</u>
Net investment in capital assets	<u>\$ 40,032,905</u>

Right to Use Leased Assets

Cleveland County Water has recorded right to use leased assets. The assets are right to use assets for leased equipment through March 2026. These right to use lease assets are amortized on a straight-line basis over the terms of the related leases.

Construction Commitments

<u>Name of Project</u>	<u>Estimated Completion</u>	<u>Project Authorization</u>	<u>Remaining Commitment</u>
Clearwell	Fall/Winter 2023	\$ 8,709,981	\$ 346,609
Op Center	Fall 2023	6,351,300	1,965,208
Marion St.	Spring 2024	2,080,000	1,513,417

B. Liabilities

Pension Plan Obligations

Local Governmental Employees' Retirement System:

Plan Description. Cleveland County Water is a participating employer in the statewide 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 thirteen (13) members – nine (9) 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 LGERS is included in the Annual Comprehensive Financial Report for the state of North Carolina. The state's Annual Comprehensive Financial Report includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

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 (4) highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age sixty-five (65) with five (5) years of creditable service, at age sixty (60) with twenty-five (25) years of creditable service, or at any age with thirty (30) years of creditable service. Plan members are eligible to retire with partial retirement benefits at age fifty (50) with twenty (20) years of creditable service or at age sixty (60) with five (5) 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 twenty (20) years of creditable service regardless of age or have completed five (5) years of service and have reached age sixty (60). Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. 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 year ended June 30, 2023 was 12.10% 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 \$265,843 for the year ended June 30, 2023.

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 (5) years of service include 4% interest. State law requires a sixty (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, 2023, Cleveland County Water reported a liability of \$1,470,720 for its proportionate share of the net pension liability. The current year's net pension liability was measured as of June 30, 2022. The previous year's net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2021. The total pension liability was then rolled forward to the measurement date of June 30, 2022 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, 2022 (measurement date), Cleveland County Water's proportion was 0.02607%, which was a decrease of 0.00260% from its proportion measured as of June 30, 2021.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

For the year ended June 30, 2023, Cleveland County Water recognized pension expense of \$393,882. As of June 30, 2023, 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	\$ 63,372	\$ 6,213
Changes of assumptions	146,745	-
Net difference between projected and actual earnings on pension plan investments	486,088	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	50,823
Employer contributions subsequent to the measurement date	265,843	-
Total	\$ 962,048	\$ 57,036

\$265,843 reported as deferred outflows of resources related to pensions resulting from Cleveland County Water's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2024	\$ 193,112
2025	169,157
2026	45,318
2027	231,582
Total	\$ 639,169

Actuarial Assumptions. The total pension liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 to 8.25 percent, including inflation and productivity factor
Investment rate of return	6.50 percent, net of pension plan investment expense, including inflation

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

The plan actuary currently uses mortality tables that vary by age, gender, employee group (i.e., general and 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. public plan population. The mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions and methods used in the December 31, 2021 actuarial valuation were based on the results of an actuarial experience study prepared as of December 31, 2019 and adopted by the Board of Trustees on January 28, 2021.

Future and ad hoc cost of living adjustment amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns, and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income returns 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, 2022 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	33.0%	0.9%
Global equity	38.0%	6.5%
Real estate	8.0%	5.9%
Alternatives	8.0%	8.2%
Opportunistic fixed income	7.0%	5.0%
Inflation sensitive	<u>6.0%</u>	2.7%
Total	<u>100%</u>	

The information above is based on 30-year expectations developed with an investment consulting firm as part of a study that was completed in early 2022, and is part of the asset, liability and investment policy of the North Carolina Retirement Systems. 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 2.25%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

Discount Rate. The discount rate used to measure the total pension liability was 6.50%. This discount rate is in line with the long-term nominal expected return on pension plan investments. The calculation of the net pension liability is a present value calculation of the future net pension payments. These net pension payments assume that contributions from plan members will be made at the current statutory contribution rate and that contributions from employers will be made at the contractually required rates, actuarially determined. Based on those 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 benefits payments to determine the total pension liability.

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 6.50%, 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 (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Authority's proportionate share of the net pension liability (asset)	\$ 2,654,461	\$ 1,470,720	\$ 495,249

Pension Plan Fiduciary Net Position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued Annual Comprehensive Financial Report for the state of North Carolina.

Other Post-Employment 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 fifty-five (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 Cleveland County Water’s group insurance plan upon retirement. Employees hired after the effective date of January 1, 2017 shall be required to have twenty-five (25) or more years of continuous and uninterrupted full-time service. Employees hired after the

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

effective date of January 1, 2017, as well as employees hired prior to these effective dates that have twenty-five (25) or more years of continuous and uninterrupted full-time service may continue on 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 Cleveland County Water until eligible retirees reach the age of sixty-five (65). Dependents are not eligible for coverage.

Membership of the health care benefit plan consisted of the following as of June 30, 2021, the date of the latest actuarial valuation:

<u>Members</u>	
Inactive members or beneficiaries currently receiving benefits	2
Active members	38
Total	<u>40</u>

Total OPEB Liability

Cleveland County Water's total OPEB liability of \$2,590,056 was measured as of June 30, 2022 and was determined by an actuarial valuation as of June 30, 2021.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2021 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	0.75%
Wage Inflation	3.25%
Salary increases, including wage inflation:	
General Employees	3.25 - 8.41%
Municipal Bond Index Rate (Discount rate):	
Prior measurement date	2.16%
Measurement date	3.54%
Healthcare cost trend rates:	
Pre-Medicare	7.00% for 2021, decreasing to an ultimate rate of 4.50% by 2031

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 FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

Changes in the Total OPEB Liability

Total OPEB Liability:	
Balance at July 1, 2022	\$ 2,838,414
Changes for the year:	
Service cost at end of year	107,498
Interest	62,800
Difference between expected and actual experience	39,566
Changes of assumptions or other inputs	(380,764)
Benefit payments and implicit subsidy credit	(77,458)
Net change in total OPEB liability	<u>(248,358)</u>
Balance at June 30, 2023	<u>\$ 2,590,056</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 2.16% to 3.54%.

Mortality rates were based on the Pub-2010 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2019.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period January 1, 2015 – December 31, 2019, adopted by the LGERS Board.

The remaining actuarial assumptions (e.g., initial per capita costs, healthcare cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2021 valuation were based on a review of recent plan experience done concurrently with the June 30, 2021 valuation.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of Cleveland County Water, as well as what Cleveland County Water's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.54%) or 1-percentage-point higher (4.54%) than the current discount rate:

	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
Total OPEB liability	\$ <u>2,860,308</u>	\$ <u>2,590,056</u>	\$ <u>2,347,664</u>

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the total OPEB liability of Cleveland County Water, as well as what Cleveland County Water'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	Current	1% Increase
Total OPEB liability	\$ 2,286,813	\$ 2,590,056	\$ 2,943,197

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2023, Cleveland County Water recognized OPEB expense of \$175,484. As of June 30, 2023, Cleveland County Water 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	\$ 102,362	\$ 204,494
Changes of assumptions or other inputs	507,451	395,308
Benefit payments and plan administrative expenses made subsequent to the measurement date	72,443	-
Total	\$ 682,256	\$ 599,802

\$72,443 reported as deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2024.

Other amounts reported as deferred inflows of resources related to OPEB benefits will be recognized in OPEB expense as follows:

Year Ending June 30	Amount
2024	\$ 5,186
2025	5,186
2026	8,658
2027	20,622
2028	15,437
Thereafter	(45,078)
Total	\$ 10,011

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

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 contributions to the Plan for the year ended June 30, 2023 were \$97,924. No amounts were forfeited.

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 (3) 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. As of June 30, 2023, the Finance Officer was bonded for \$50,000. Effective with the bond renewal on July 1, 2023, the bonding for the Finance Officer was increased to \$1,000,000 in order to comply with S.L. 2022-53, Section 9(a).

Directors and officers are covered for their wrongful acts under a Public Officials Liability policy with a limit of \$5,000,000. The remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

Long-Term Debt

Leases

Cleveland County Water has entered into agreements to lease certain equipment. The lease agreements qualify as other than short-term leases under GASB 87 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 July 1, 2021, to lease postage equipment and requires 19 quarterly payments of \$145. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 2%. As a result of the lease, Cleveland County Water has recorded a right to use asset with a net book value of \$1,468 at June 30, 2023.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

The future minimum lease obligations of these minimum lease payments as of June 30, 2023 are as follows:

<u>Year Ending June 30</u>	Business-Type Activities		
	Principal Payments	Interest Payments	Total
2024	\$ 536	\$ 43	\$ 579
2025	553	25	578
2026	427	7	434
Total	\$ 1,516	\$ 75	\$ 1,591

Installment Purchases

HomeTrust Bank Installment Purchases. Cleveland County Water has entered into agreements to finance certain equipment. The finance agreements qualify as financed purchases for accounting purposes due to the transfer of ownership of the underlying asset. There are no termination provisions in the finance agreements. The first agreement was executed on February 15, 2018 to purchase certain equipment and vehicles and required one advance payment in addition to five (5) annual payments of \$59,079, including interest at a rate of 2.23%. The balance of the financed amount was \$0 as of June 30, 2023. The second agreement was executed on June 4, 2019 to purchase vehicles and requires five (5) annual payments of \$35,313, including interest at a rate of 2.73%. The balance of the financed amount was \$34,451 as of June 30, 2023. In both agreements, title passes to Cleveland County Water at the end of the finance term.

The installment purchases are collateralized by equipment and light trucks with a value at \$24,037 and \$95,535, respectively, as of June 30, 2023.

The future minimum obligations on the installment purchases as of June 30, 2023 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 34,451	\$ 862	\$ 35,313

Notes From Direct Borrowings

North Carolina Drinking Water State Revolving Fund Loans. As of December 19, 2018, Cleveland County Water had been approved for a twenty (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. Principal payment of \$168,462 is due on May 1st of each year and two (2) interest payments at a rate of 1.53% are due on May 1st and November 1st of each year, through May 1, 2040. This loan contains no collateral or termination provisions. The balance of the loan amount was \$2,863,859 as of June 30, 2023.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

As of March 25, 2020, Cleveland County Water had been approved for a twenty (20)-year term loan from the 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%. This loan contains no collateral or termination provisions. The balance of the loan amount was \$7,949,026 as of June 30, 2023.

As of February 16, 2021, Cleveland County Water had been approved for a forty (40)-year loan from the state and Area Office of USDA Rural Development Agency in the amount of \$4,997,000 for the construction of the new operations center. The loan will be repaid at an interest rate of 1.75%. The loan is secured by Water Revenue Bonds. Principal and interest payments will be due on the 1st day of June each year. The outstanding note contains a provision that in an event of default, the Government has the option to declare the entire principal and any outstanding and accrued interest immediately due and payable and take possession of the facility. The balance of the loan amount was \$4,997,000 as of June 30, 2023.

Year Ending June 30	Maturities	Interest	Total
2024	\$ 682,730	\$ 233,673	\$ 916,403
2025	684,258	216,415	900,673
2026	685,813	207,458	893,271
2027	687,395	198,474	885,869
2028	689,004	189,463	878,467
2028-2032	3,469,166	811,136	4,280,302
2033-2037	3,514,845	568,404	4,083,249
2038-2042	2,468,014	355,356	2,823,370
Thereafter	<u>2,928,660</u>	<u>567,452</u>	<u>3,496,112</u>
Total	<u>\$ 15,809,885</u>	<u>\$ 3,347,831</u>	<u>\$ 19,157,716</u>

During the year ended June 30, 2023, the following changes occurred in long-term liabilities:

	Balance July 1, 2022	Additions	Retirements	Balance June 30, 2023	Due Within One Year
Notes from direct borrowing:	\$ 11,599,085	\$ 4,379,262	\$ 168,462	\$ 15,809,885	\$ 682,730
Installment purchase	125,805	-	91,354	34,451	34,451
Leases	3,840	-	2,324	1,516	536
Net pension liability	439,682	1,031,038	-	1,470,720	-
Total OPEB liability	2,838,414	-	248,358	2,590,056	-
Compensated absences	242,415	199,013	212,100	229,328	212,100
Total	<u>\$ 15,249,241</u>	<u>\$ 5,609,313</u>	<u>\$ 722,598</u>	<u>\$ 20,135,956</u>	<u>\$ 929,817</u>

As of June 30, 2023, Cleveland County Water had a legal debt margin of \$423,571,451.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

3. 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 (10) 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, 2023 was \$64,800. The ownership of Fallston water distribution system and customer base remains with the Town of Fallston.

The USDA loan maturity schedule, including principal and interest, represents a summary of future minimum lease payments and is as follows:

Year Ending		Amount
June 30		
2024	\$	65,205
2025		64,593
2026		64,980
2027		65,350
2028		64,900
2029-2033		324,890
2034-2038		325,480
2039-2043		324,280
2044-2048		325,260
2049-2053		324,560
2054-2058		326,873
2059		64,791
Total	\$	<u>2,341,162</u>

Cleveland County Water entered into an interlocal agreement for management of the Town of Fallston’s Water and Wastewater System Asset Inventory and Assessment project. Beginning October 14, 2021 through project completion, Cleveland County Water will serve as an agent for the Town of Fallston to manage and oversee the project. The ownership of Fallston water distribution system and customer base remains with the Town of Fallston. A maximum grant of \$300,000 will be received by Cleveland County Water from the North Carolina Department of Environmental Quality Division of Water Infrastructure, through the Town of Fallston, for completion of this project.

Cleveland County Water entered into an interlocal agreement for management of the Town of Lawndale’s Water and Wastewater System Asset Inventory and Assessment project. Beginning October 8, 2021 through project completion, Cleveland County Water will serve as an agent for the Town of Lawndale to manage and oversee the project. The ownership of Lawndale water distribution system and customer base remains with the Town of Lawndale. A maximum grant of \$300,000 will be received by Cleveland County Water from the North Carolina Department of Environmental Quality Division of Water Infrastructure, through the Town of Lawndale, for completion of this project.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2023

Cleveland County Water entered into an interlocal agreement for management of the Town of Polkville's Wastewater System Asset Inventory and Assessment project. Beginning October 8, 2021 through project completion, Cleveland County Water will serve as an agent for the Town of Polkville to manage and oversee the project. The ownership of Polkville water distribution system and customer base remains with the Town of Polkville. A maximum grant of \$150,000 will be received by Cleveland County Water from the North Carolina Department of Environmental Quality Division of Water Infrastructure, through the Town of Polkville, for completion of this project.

Cleveland County Water entered into an interlocal agreement for management of the Town of Belwood's Loop Road, St. Peters Church Road and Lutz Road water and sewer infrastructure projects. Beginning October 6, 2021 through project completion, Cleveland County Water will serve as an agent for the Town of Belwood to manage and oversee the projects. The ownership of Belwood water distribution system and customer base remains with the Town of Belwood. A maximum grant of \$61,000 will be received by Cleveland County Water from the American Rescue Plan Act, through the Town of Belwood, for completion of this project. Cleveland County Water agrees to pay for the remainder of the costs related to the projects in excess of the \$61,000 American Rescue Plan Act funds.

Cleveland County Water entered into an interlocal agreement for management of the Town of Boiling Spring's water interconnection along McBrayer Homestead Road project. Beginning February 8, 2022 through project completion, Cleveland County Water will serve as an agent for the Town of Boiling Springs to manage and oversee the project. The ownership of Boiling Springs water distribution system and customer base remains with the Town of Boiling Springs.

REQUIRED SUPPLEMENTARY INFORMATION

CLEVELAND COUNTY WATER

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION
LAST SIX FISCAL YEARS**

Other Post-Employment Benefits			
	2023	2022	2021
Total OPEB Liability			
Service cost at end of year	\$ 107,498	\$ 114,420	\$ 83,067
Interest	62,800	59,325	77,540
Differences between expected and actual experience	39,566	(276,887)	14,144
Changes of assumptions or other inputs	(380,764)	390,875	305,153
Benefit payments	(77,458)	(38,370)	(46,044)
Net change in total OPEB liability	(248,358)	249,363	433,860
Total OPEB liability, beginning	2,838,414	2,589,051	2,155,191
Total OPEB liability, ending	<u>\$ 2,590,056</u>	<u>\$ 2,838,414</u>	<u>\$ 2,589,051</u>
Covered-employee payroll	\$ 2,074,263	\$ 2,074,263	\$ 1,840,036
Total OPEB liability as a percentage of covered-employee payroll	124.87%	136.84%	140.71%

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:

Fiscal Year	Rate
2023	3.54%
2022	2.16%
2021	2.21%
2020	3.50%
2019	3.89%
2018	3.56%

CLEVELAND COUNTY WATER

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY
AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION
LAST SIX FISCAL YEARS**

	Other Post-Employment Benefits		
	2020	2019	2018
Total OPEB Liability			
Service cost at end of year	\$ 77,056	\$ 79,869	\$ 86,685
Interest	72,386	64,789	55,140
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%

CLEVELAND COUNTY WATER

**SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST TEN FISCAL YEARS***

	Local Governmental Employees' Retirement System				
	2023	2022	2021	2020	2019
Employer's proportion of the net pension liability (asset)(%)	0.02607%	0.02867%	0.02999%	0.03025%	0.03241%
Employer's proportion of the net pension liability (asset)(\$)	\$ 1,470,720	\$ 439,682	\$ 1,071,670	\$ 826,104	\$ 768,876
Employer's covered payroll	\$ 2,203,325	\$ 2,102,757	\$ 2,101,669	\$ 1,962,117	\$ 1,906,743
Employer's proportionate share of of the net pension liability (asset) as a percentage of its covered payroll	66.75%	20.91%	50.99%	42.10%	40.32%
Plan fiduciary net position as a percentage of the total pension liability**	84.14%	95.51%	88.61%	90.86%	91.63%

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

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

CLEVELAND COUNTY WATER

**SCHEDULE OF THE PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST TEN FISCAL YEARS***

	Local Governmental Employees' Retirement System				
	2018	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)(%)	0.02974%	0.03168%	0.03000%	0.03000%	0.03100%
Employer's proportion of the net pension liability (asset)(\$)	\$ 454,345	\$ 672,356	\$ 134,236	\$ (175,214)	\$ -
Employer's covered payroll	\$ 1,713,689	\$ 1,720,900	\$ 1,642,546	\$ 1,628,175	\$ 1,480,099
Employer's proportionate share of of the net pension liability (asset) as a percentage of its covered payroll	26.51%	39.07%	8.17%	-10.76%	0.00%
Plan fiduciary net position as a percentage of the total pension liability**	94.18%	91.47%	98.09%	102.64%	94.35%

CLEVELAND COUNTY WATER

**REQUIRED SUPPLEMENTARY INFORMATION
LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contractually required contribution	\$ 265,843	\$ 250,077	\$ 213,429	\$ 188,100	\$ 152,064
Contributions in relation to the contractually required contribution	<u>265,843</u>	<u>250,077</u>	<u>213,429</u>	<u>188,100</u>	<u>152,064</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered payroll	\$ 2,197,044	\$ 2,203,325	\$ 2,102,751	\$ 2,101,669	\$ 1,962,117
Contributions as a percentage of covered payroll	12.10%	11.35%	10.15%	8.95%	7.75%

CLEVELAND COUNTY WATER

**REQUIRED SUPPLEMENTARY INFORMATION
LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
LAST TEN FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 143,006	\$ 124,242	\$ 114,784	\$ 116,128	\$ 115,112
Contributions in relation to the contractually required contribution	<u>143,006</u>	<u>124,242</u>	<u>114,784</u>	<u>116,128</u>	<u>115,112</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered payroll	\$ 1,906,743	\$ 1,713,689	\$ 1,720,900	\$ 1,642,546	\$ 1,628,175
Contributions as a percentage of covered payroll	7.50%	7.25%	6.67%	7.07%	7.07%

CLEVELAND COUNTY WATER

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP) – WATER FUND
FOR THE YEAR ENDED JUNE 30, 2023

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Operating Revenues:			
Water charges	\$ 8,469,600	\$ 8,869,649	\$ 400,049
Tap connection charges	300,000	355,715	55,715
Total operating revenues	<u>8,769,600</u>	<u>9,225,364</u>	<u>455,764</u>
Non-Operating Revenues:			
Special district ad valorem tax	1,038,000	1,092,731	54,731
Investment earnings	67,000	178,133	111,133
Local option sales tax	350,000	402,217	52,217
Miscellaneous	98,105	106,894	8,789
Total non-operating revenues	<u>1,553,105</u>	<u>1,779,975</u>	<u>226,870</u>
Total revenues	<u>10,322,705</u>	<u>11,005,339</u>	<u>682,634</u>
Operating Expenditures:			
Salaries and employee benefits	<u>3,583,392</u>	<u>3,307,273</u>	<u>276,119</u>
Administration:			
Professional services	133,215	131,214	2,001
Telephone and utilities	32,615	29,202	3,413
Repairs and maintenance	150,050	120,542	29,508
Postage	4,000	3,051	949
Insurance and bonds	74,000	72,504	1,496
Sewer collections	240,586	240,583	3
Other departmental expenditures	480,970	445,732	35,238
Total administration	<u>1,115,436</u>	<u>1,042,828</u>	<u>72,608</u>
Water Plant:			
Professional services	18,200	18,150	50
Telephone and utilities	380,405	379,715	690
Repairs and maintenance	89,730	86,038	3,692
Materials and supplies	39,400	24,790	14,610
Chemicals	244,290	255,131	(10,841)
Contracted services	5,025	511	4,514
Other departmental expenditures	42,545	26,162	16,383
Total water plant	<u>819,595</u>	<u>790,497</u>	<u>29,098</u>

CLEVELAND COUNTY WATER

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP) – WATER FUND
FOR THE YEAR ENDED JUNE 30, 2023

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Water Line Maintenance:			
Telephone and utilities	90,500	83,251	7,249
Repairs and maintenance	200,660	60,867	139,793
Materials and supplies	744,680	729,300	15,380
Contracted services	215,970	198,949	17,021
Other departmental expenditures	<u>1,036,325</u>	<u>895,153</u>	<u>141,172</u>
Total water line maintenance	<u>2,288,135</u>	<u>1,967,520</u>	<u>320,615</u>
Meter Services:			
Fuel	33,500	20,587	12,913
Repairs and maintenance	7,500	1,190	6,310
Other departmental expenditures	<u>93,425</u>	<u>29,940</u>	<u>63,485</u>
Total meter services	<u>134,425</u>	<u>51,717</u>	<u>82,708</u>
Greenway:			
Professional services	80,000	16,150	63,850
Travel, meetings, schools	5,000	-	5,000
Advertising	10,000	-	10,000
Dept supplies & expenses	15,000	775	14,225
Land and area maintenance	<u>140,000</u>	<u>162,412</u>	<u>(22,412)</u>
Total greenway	<u>250,000</u>	<u>179,337</u>	<u>70,663</u>
Total operating expenses	<u>8,190,983</u>	<u>7,339,172</u>	<u>851,811</u>
Budgetary Appropriations:			
Debt Service:			
Debt principal	259,818	262,140	(2,322)
Interest	<u>49,434</u>	<u>48,415</u>	<u>1,019</u>
Total debt service	<u>309,252</u>	<u>310,555</u>	<u>(1,303)</u>
Capital outlay	<u>1,822,470</u>	<u>1,761,989</u>	<u>60,481</u>
Total budgetary appropriations	<u>2,131,722</u>	<u>2,072,544</u>	<u>59,178</u>
Total expenditures and other uses	<u>10,322,705</u>	<u>9,411,716</u>	<u>910,989</u>

CLEVELAND COUNTY WATER

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP) – WATER FUND
FOR THE YEAR ENDED JUNE 30, 2023**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	1,593,623	\$ 1,593,623
Reconciling items:			
Capital outlay		1,712,923	
Debt principal		262,140	
Change in deferred outflows of resources – pensions		294,243	
Change in deferred outflows of resources – OPEB		(53,120)	
Change in OPEB liability		248,358	
Change in net pension liability		(1,031,038)	
Change in deferred inflows of resources – unearned water sales		(2,224)	
Change in deferred inflows of resources – pensions		608,757	
Change in deferred inflows of resources – OPEB		(271,661)	
Change in deferred inflows of resources – leases		4,425	
Change in compensated absences		13,087	
Gain on sale of capital assets		44,761	
Depreciation expense		(1,567,217)	
Amortization expense - leases		(514)	
Capital project fund activity:			
Capital contributions - restricted intergovernmental revenues		1,505,000	
Capital contributions - local revenues		133,942	
Capital projects expenses not capitalized		<u>(232,287)</u>	
Change in net position		<u>\$ 3,263,198</u>	

**INDIVIDUAL FUND STATEMENTS AND
SCHEDULES**

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CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - US74 BYPASS RELOCATION 2707D
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Actual			Variance Over/Under
		Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental:					
U.S. Department of Transportation	\$ 64,320	\$ 41,792	\$ 22,528	\$ 64,320	\$ -
NC Department of Transportation	16,080	10,771	5,299	16,070	(10)
Total revenues	<u>80,400</u>	<u>52,563</u>	<u>27,827</u>	<u>80,390</u>	<u>(10)</u>
Expenditures:					
Capital outlay:					
Engineering	<u>80,400</u>	<u>52,563</u>	<u>27,827</u>	<u>80,390</u>	<u>10</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			<u>\$ -</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - US74 BYPASS RELOCATION 2707E
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
Revenues:					
Restricted intergovernmental:					
U.S. Department of Transportation	\$ 63,875	\$ 41,508	\$ 22,367	\$ 63,875	\$ -
NC Department of Transportation	15,968	10,698	5,270	15,968	-
Total revenues	<u>79,843</u>	<u>52,206</u>	<u>27,637</u>	<u>79,843</u>	<u>-</u>
Expenditures:					
Capital outlay:					
Engineering	<u>79,843</u>	<u>52,206</u>	<u>27,637</u>	<u>79,843</u>	<u>-</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balance:					
Beginning of year, July 1			<u>-</u>		
End of year, June 30			<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 REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
Revenues:					
Restricted intergovernmental:					
NC Department of Transportation	\$ 20,100	\$ 15,899	\$ -	\$ 15,899	\$ (4,201)
Expenditures:					
Capital outlay:					
Engineering	20,100	15,899	-	15,899	4,201
Construction	38,150	-	-	-	38,150
Total expenditures	58,250	15,899	-	15,899	42,351
Revenues over (under) expenditures	(38,150)	-	-	-	38,150
Other Financing Sources (Uses):					
Transfers in (out)	38,150	-	-	-	(38,150)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ -	-	\$ -	\$ -
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ -		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - CLEARWELL AND
 HIGH SERVICE PUMP STATION PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Actual			Variance Over/Under
		Prior Years	Current Year	Total to Date	
Expenditures:					
Capital outlay:					
Construction	\$ 7,909,197	\$ 3,029,703	\$ 4,324,653	\$ 7,354,356	\$ 554,841
Financial management	170,784	170,784	-	170,784	-
Professional services	630,000	540,060	99,662	639,722	(9,722)
Total expenditures	<u>8,709,981</u>	<u>3,740,547</u>	<u>4,424,315</u>	<u>8,164,862</u>	<u>545,119</u>
Other Financing Sources (Uses):					
Loan proceeds from NCDENR	8,539,197	3,569,763	4,379,262	7,949,025	(590,172)
Transfers in (out)	170,784	170,784	-	170,784	-
Total other financing sources (uses)	<u>8,709,981</u>	<u>3,740,547</u>	<u>4,379,262</u>	<u>8,119,809</u>	<u>(590,172)</u>
Revenues and other financing sources over (under) expenditures & other financing uses	<u>\$ -</u>	<u>\$ -</u>	(45,053)	<u>\$ (45,053)</u>	<u>\$ (45,053)</u>
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			<u>\$ (45,053)</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - CENTRALLY LOCATED OPERATIONS CENTER
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Actual			Variance Over/Under
		Prior Years	Current Year	Total to Date	
Expenditures:					
Capital outlay:					
Professional services	\$ 475,504	\$ 327,193	\$ 107,308	\$ 434,501	\$ 41,003
Construction	5,595,796	109,602	3,627,098	3,736,700	1,859,096
Legal	30,000	10,000	-	10,000	20,000
Financing and interest	250,000	6,241	-	6,241	243,759
Total expenditures	<u>6,351,300</u>	<u>453,036</u>	<u>3,734,406</u>	<u>4,187,442</u>	<u>2,163,858</u>
Other Financing Sources (Uses):					
Loan proceeds from USDA Loan	4,997,000	4,997,000	-	4,997,000	-
Transfers in (out)	<u>1,354,300</u>	<u>453,036</u>	-	<u>453,036</u>	<u>(901,264)</u>
Total other financing sources (uses)	<u>6,351,300</u>	<u>5,450,036</u>	-	<u>5,450,036</u>	<u>(901,264)</u>
Revenues and other financing sources over (under) expenditures & other financing uses	\$ -	\$ <u>4,997,000</u>	(3,734,406)	\$ <u>1,262,594</u>	\$ <u>1,262,594</u>
Fund Balance:					
Beginning of year, July 1			<u>4,997,000</u>		
End of year, June 30			\$ <u>1,262,594</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - RAW WATER WEIR IMPROVEMENTS PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Actual			Variance Over/Under
		Prior Years	Current Year	Total to Date	
Expenditures:					
Capital outlay:					
Construction	\$ 9,570,000	\$ -	\$ -	\$ -	\$ 9,570,000
Land acquisition	15,000	14,715	-	14,715	285
Professional services	2,090,000	809,372	182,992	992,364	1,097,636
Legal	75,000	-	-	-	75,000
Financing and interest	300,000	-	-	-	300,000
Total expenditures	<u>12,050,000</u>	<u>824,087</u>	<u>182,992</u>	<u>1,007,079</u>	<u>11,042,921</u>
Other Financing Sources (Uses):					
Loan proceeds from USDA Loan #1	9,000,000	-	-	-	(9,000,000)
Loan proceeds from USDA Loan #2	3,035,000	-	-	-	(3,035,000)
Transfers in (out)	15,000	14,715	-	14,715	(285)
Total other financing sources (uses)	<u>12,050,000</u>	<u>14,715</u>	<u>-</u>	<u>14,715</u>	<u>(12,035,285)</u>
Revenues and other financing sources over (under) expenditures & other financing uses	<u>\$ -</u>	<u>\$ (809,372)</u>	<u>(182,992)</u>	<u>\$ (992,364)</u>	<u>\$ (992,364)</u>
Fund Balance:					
Beginning of year, July 1			<u>(809,372)</u>		
End of year, June 30			<u>\$ (992,364)</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - FLOCCULATION AND
 SEDIMENTATION IMPROVEMENTS PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
Expenditures:					
Capital outlay					
Construction	\$ 2,420,000	\$ -	\$ -	\$ -	\$ 2,420,000
Engineering/administration	330,000	195,060	23,897	218,957	111,043
Financial management	55,000	-	-	-	55,000
Total expenditures	<u>2,805,000</u>	<u>195,060</u>	<u>23,897</u>	<u>218,957</u>	<u>2,586,043</u>
Other Financing Sources (Uses):					
NC Division of Water Quality Loan	2,750,000	-	-	-	(2,750,000)
Transfers in (out)	55,000	-	-	-	(55,000)
Total other financing sources (uses)	<u>2,805,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,805,000)</u>
Revenues and other financing sources over (under) expenditures & other financing uses	<u>\$ -</u>	<u>\$ (195,060)</u>	(23,897)	<u>\$ (218,957)</u>	<u>\$ (218,957)</u>
Fund Balance:					
Beginning of year, July 1			<u>(195,060)</u>		
End of year, June 30			<u>\$ (218,957)</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - LAWNSDALE PARK PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Actual			Variance Over/Under
		Prior Years	Current Year	Total to Date	
Revenues:					
Grant Revenue – Town of Fallston	\$ 10,000	\$ 10,000	\$ -	\$ 10,000	\$ -
Grant Revenue – Duke Energy	25,000	25,000	-	25,000	-
Grant Revenue – DWR/NCDEQ	200,000	3,250	160,975	164,225	(35,775)
Grant Revenue – Cleveland County	60,000	-	60,000	60,000	-
Grant Revenue – Recreation Trails Program	100,000	-	-	-	(100,000)
Grant Revenue – Town of Lawndale PARTF	415,000	-	-	-	(415,000)
Total revenues	<u>810,000</u>	<u>38,250</u>	<u>220,975</u>	<u>259,225</u>	<u>(550,775)</u>
Expenditures:					
Capital outlay:					
Construction	510,000	-	-	-	510,000
Engineering	300,000	38,250	217,855	256,105	43,895
Total expenditures	<u>810,000</u>	<u>38,250</u>	<u>217,855</u>	<u>256,105</u>	<u>553,895</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	3,120	<u>\$ 3,120</u>	<u>\$ 3,120</u>
Fund Balance:					
Beginning of year, July 1			<u>-</u>		
End of year, June 30			<u>\$ 3,120</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - FALLSTON WATER AND
 WASTEWATER AIA PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
Revenues:					
AIA Grant Funds	\$ 300,000	\$ 74,515	\$ 91,610	\$ 166,125	\$ (133,875)
Expenditures:					
Capital outlay					
Professional services	300,000	74,515	91,610	166,125	133,875
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ -		

CLEVELAND COUNTY WATER

**ENTERPRISE FUND CAPITAL PROJECTS
WATER IMPROVEMENTS PROJECTS - LAWNSDALE WATER AND
WASTEWATER AIA PROJECT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023**

	Project Authorization	Actual			Variance Over/Under
		Prior Years	Current Year	Total to Date	
Revenues:					
AIA Grant Funds	\$ 300,000	\$ 59,050	\$ 100,690	\$ 159,740	\$ (140,260)
Expenditures:					
Capital outlay:					
Professional services	300,000	59,050	100,690	159,740	140,260
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			<u>\$ -</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - POLKVILLE WATER AND
 WASTEWATER AIA PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
Revenues:					
AIA Grant Funds	\$ 150,000	\$ 16,634	\$ 39,792	\$ 56,426	\$ (93,574)
Expenditures:					
Capital outlay:					
Professional services	150,000	16,634	39,792	56,426	93,574
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ -		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

WATER IMPROVEMENTS PROJECTS - BELLWOOD WATERLINES IMPROVEMENTS PROJECT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
Revenues:					
Town of Bellwood	\$ 61,755	\$ 61,000	\$ 755	\$ 61,755	\$ -
Expenditures:					
Capital outlay:					
Bellwood Loop Waterline Improvements	47,810	20,152	27,658	47,810	-
St. Peters Church Road Waterline Improvements	121,945	74,291	47,650	121,941	4
Lutz Road Waterline Improvements	<u>70,855</u>	<u>68,813</u>	<u>2,037</u>	<u>70,850</u>	<u>5</u>
Total expenditures	<u>240,610</u>	<u>163,256</u>	<u>77,345</u>	<u>240,601</u>	<u>9</u>
Other Financing Sources (Uses):					
Transfers in (out)	<u>178,855</u>	<u>163,256</u>	<u>-</u>	<u>163,256</u>	<u>(15,599)</u>
Revenues and other financing sources over (under) expenditures & other financing uses	<u>\$ -</u>	<u>\$ 61,000</u>	<u>(76,590)</u>	<u>\$ (15,590)</u>	<u>\$ (15,590)</u>
Fund Balance:					
Beginning of year, July 1			<u>61,000</u>		
End of year, June 30			<u>\$ (15,590)</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - ELAM ROAD BRIDGE PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Actual			Variance Over/Under
		Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental:					
NC Department of Transportation	\$ 121,101	\$ 27,218	\$ 14,651	\$ 41,869	\$ (79,232)
Expenditures:					
Capital outlay:					
Engineering	27,357	9,928	12,929	22,857	4,500
Construction	93,744	17,290	1,722	19,012	74,732
Total expenditures	121,101	27,218	14,651	41,869	79,232
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ -		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

WATER IMPROVEMENTS PROJECTS - MCBRAYER HOMESTEAD BRIDGE PROJECT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
Revenues:					
Restricted intergovernmental:					
NC Department of Transportation	\$ 140,950	\$ 36,445	\$ 3,000	\$ 39,445	\$ (101,505)
Expenditures:					
Capital outlay:					
Engineering	27,357	19,857	3,000	22,857	4,500
Construction	113,593	16,588	-	16,588	97,005
Total expenditures	<u>140,950</u>	<u>36,445</u>	<u>3,000</u>	<u>39,445</u>	<u>101,505</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			<u>\$ -</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

WATER IMPROVEMENTS PROJECTS - MAIN STREET PUMP STATION ARP PROJECT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
Revenues:					
ARP Funds	\$ 2,080,000	\$ 101,873	\$ 443,887	\$ 545,760	\$ (1,534,240)
Expenditures:					
Capital outlay:					
Construction	1,825,000	-	387,519	387,519	1,437,481
Engineering	255,000	101,873	56,368	158,241	96,759
Total expenditures	2,080,000	101,873	443,887	545,760	1,534,240
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ -		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - CASAR LAWNDALE, SAND HILLS,
 WILL DIXON WATER MAIN ARP PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
Revenues:					
ARP Funds	\$ 5,116,000	\$ 155,780	\$ 276,925	\$ 432,705	\$ (4,683,295)
Expenditures:					
Capital outlay:					
Construction	4,466,000	-	-	-	4,466,000
Engineering	650,000	155,780	276,925	432,705	217,295
Total expenditures	<u>5,116,000</u>	<u>155,780</u>	<u>276,925</u>	<u>432,705</u>	<u>4,683,295</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balance:					
Beginning of year, July 1			<u>-</u>		
End of year, June 30			<u>\$ -</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - POLKVILLE TANK AND
 BOOSTER PUMP STATION ARP PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>	<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>		
Revenues:					
ARP Funds	\$ 433,300	\$ 51,349	\$ 170,685	\$ 222,034	\$ (211,266)
Expenditures:					
Capital outlay:					
Land	35,100	-	35,099	35,099	1
Engineering	433,300	51,349	170,685	222,034	211,266
Total expenditures	468,400	51,349	205,784	257,133	211,267
Other Financing Sources (Uses):					
Transfers in (out)	35,100	-	-	-	(35,100)
Revenues and other financing sources over (under) expenditures & other financing uses	\$ -	\$ -	(35,099)	\$ (35,099)	\$ (35,099)
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ (35,099)		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - BELLWOOD TANK AND
 BOOSTER PUMP STATION ARP PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
Revenues:					
ARP Funds	\$ 456,300	\$ 72,280	\$ 49,520	\$ 121,800	\$ (334,500)
Expenditures:					
Capital outlay:					
Land	67,400	-	67,380	67,380	20
Engineering	456,300	72,280	49,520	121,800	334,500
Total expenditures	<u>523,700</u>	<u>72,280</u>	<u>116,900</u>	<u>189,180</u>	<u>334,520</u>
Other Financing Sources (Uses):					
Transfers in (out)	<u>67,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(67,400)</u>
Revenues and other financing sources over (under) expenditures & other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>(67,380)</u>	<u>\$ (67,380)</u>	<u>\$ (67,380)</u>
Fund Balance:					
Beginning of year, July 1			<u>-</u>		
End of year, June 30			<u>\$ (67,380)</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - WACO BOOSTER PUMP
 STATION ARP PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	Project Authorization	Actual		Total to Date	Variance Over/Under
		Prior Years	Current Year		
Revenues:					
ARP Funds	\$ 94,500	\$ -	\$ 37,800	\$ 37,800	\$ (56,700)
Expenditures:					
Capital outlay					
Land	6,000	-	4,126	4,126	1,874
Engineering	94,500	-	37,800	37,800	56,700
Total expenditures	100,500	-	41,926	41,926	58,574
Other Financing Sources (Uses):					
Transfers in (out)	6,000	-	-	-	(6,000)
Revenues and other financing sources over (under) expenditures & other financing uses	\$ -	\$ -	(4,126)	\$ (4,126)	\$ (4,126)
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ (4,126)		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - CHERRYVILLE INTERCONNECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2023

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
Revenues:					
City of Cherryville	\$ 3,000,000	\$ -	\$ 133,187	\$ 133,187	\$ (2,866,813)
Expenditures:					
Capital outlay					
Construction	2,478,200	-	-	-	2,478,200
Administration	27,800	-	-	-	27,800
Engineering	494,000	-	133,187	133,187	360,813
Total expenditures	<u>3,000,000</u>	<u>-</u>	<u>133,187</u>	<u>133,187</u>	<u>2,866,813</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balance:					
Beginning of year, July 1			<u>-</u>		
End of year, June 30			<u>\$ -</u>		

CLEVELAND COUNTY WATER

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2023

<u>Fiscal Year</u>	<u>Balance July 1, 2022</u>	<u>Additions and Adjustments</u>	<u>Collections and Credits</u>	<u>Balance June 30, 2023</u>
2022-2023	\$ -	\$ 1,098,539	\$ 1,074,587	\$ 23,952
2021-2022	16,936	-	9,723	7,213
2020-2021	6,677	-	3,179	3,498
2019-2020	8,321	-	1,878	6,443
2018-2019	4,851	-	1,074	3,777
2017-2018	2,828	-	600	2,228
2016-2017	1,702	-	452	1,250
2015-2016	1,258	-	342	916
2014-2015	978	-	223	755
2013-2014	742	-	103	639
2012-2013	570	-	570	-
Total	<u>\$ 44,863</u>	<u>\$ 1,098,539</u>	<u>\$ 1,092,731</u>	<u>50,671</u>
Less: Allowance for uncollectible taxes				<u>-</u>
Ad valorem taxes receivable – net				<u>\$ 50,671</u>
Reconciliation with Revenues:				
Ad valorem taxes – Water Fund				<u>\$ 1,092,731</u>
Total Collections and Credits				<u>\$ 1,092,731</u>

CLEVELAND COUNTY WATER

ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2023

	<u>Property Valuation</u>	<u>Rate (1)</u>	<u>Total Levy</u>	<u>Total Levy</u>	
				<u>Registered Motor Vehicles</u>	<u>Property Excluding Registered Motor Vehicles</u>
Original Levy:					
Property taxed at current year's rate	\$ 4,908,157,390	0.02%	\$ 981,631	\$ -	\$ 981,631
Motor vehicles taxed at current year's rate	<u>304,500,000</u>	0.02%	<u>60,900</u>	<u>60,900</u>	<u>-</u>
Total original levy	5,212,657,390		1,042,531	60,900	981,631
Discoveries:					
Current year taxes	305,854,950		61,171	-	61,171
Abatements					
	<u>(25,815,000)</u>		<u>(5,163)</u>	<u>(606)</u>	<u>(4,557)</u>
Total property valuation	<u>\$ 5,492,697,340</u>				
Net Levy			1,098,539	60,294	1,038,245
Less: Uncollected taxes at June 30, 2023			<u>23,952</u>	<u>-</u>	<u>23,952</u>
Current Year's Taxes Collected			<u>\$ 1,074,587</u>	<u>\$ 60,294</u>	<u>\$ 1,014,293</u>
Current Year Levy Collected Percentage			<u>97.820%</u>	<u>100.000%</u>	<u>97.693%</u>

CLEVELAND COUNTY WATER

**ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2023**

Secondary Market Disclosures:

Assessed Valuation:

Assessment ratio (2)	<u>100%</u>
Real property	\$ 4,910,099,220
Personal property	304,500,000
Public service companies (3)	<u>278,098,120</u>
 Total assessed valuation	 <u>\$ 5,492,697,340</u>
 Tax rate per \$100	 <u>\$ 0.02</u>
 Total	 <u>\$ 1,098,539</u>

(1) The Assessed value times the tax rate will not equal the amount of levy because the levy includes discoveries and releases at prior years' rates.

(2) Percentage of appraised value has been established by statute.

(3) Valuation of railroads, telephone companies and other utilities as determined by the North Carolina Property Tax Commission.

CLEVELAND COUNTY WATER

TEN LARGEST TAXPAYERS FOR THE YEAR ENDED JUNE 30, 2023

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2022 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Clearwater Paper Shelby, LLC	Manufacturing	\$ 350,953,672	6.39%
Southern Power Company	Utilities	257,019,588	4.68%
Duke Energy Carolinas, LLC	Utilities	139,008,921	2.53%
Public Service Company of NC, Inc.	Utilities	64,486,526	1.17%
KSM Castings NC, Inc.	Manufacturing	54,306,050	0.99%
Eaton Corporation	Manufacturing	45,423,873	0.83%
Ticona Polymers, Inc.	Manufacturing	39,003,160	0.71%
Greenheck Fan Corporation	Manufacturing	37,337,203	0.68%
Transcontinental Pipeline	Manufacturing	36,054,320	0.66%
Dongfanghong, LLC	Manufacturing	33,075,518	0.60%
		<u>\$ 1,056,668,831</u>	<u>19.23%</u>

COMPLIANCE REPORTS

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

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

Independent Auditor's Report

To the Board of Directors
Cleveland County Water
Lawndale, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the accompanying financial statements of the business-type activities of Cleveland County Water as of and for the year ended June 30, 2023 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, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cleveland County Water'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 Cleveland County Water's internal control. Accordingly, we do not express an opinion on the effectiveness of Cleveland County Water's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings, Responses, and Questioned Costs as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cleveland County Water's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Cleveland County Water's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on Cleveland County Water's response to the finding identified in our audit and described in the accompanying Schedule of Findings, Responses, and Questioned Costs. Cleveland County Water's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 23, 2023

MARTIN STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; Required by the Uniform Guidance and the State Single Audit Implementation Act

Independent Auditor's Report

To the Board of Directors
Cleveland County Water
Lawndale, North Carolina

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Cleveland County Water's compliance with the types of compliance requirements identified as subject to audit 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, 2023. Cleveland County Water's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses and Questioned Costs.

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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); 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. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Cleveland County Water and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Cleveland County Water's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Cleveland County Water's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material non-compliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Cleveland County Water's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act will always detect material non-compliance when it exists. The risk of not detecting material non-compliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Non-compliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Cleveland County Water's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material non-compliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Cleveland County Water's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of Cleveland County Water's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of Cleveland County Water's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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, non-compliance 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 non-compliance 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 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 23, 2023

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CLEVELAND COUNTY WATER

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2023

1. Summary of Auditor's Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___X___ Yes ___ No
- Significant deficiency(ies) identified? ___ Yes ___X___ None reported

Non-compliance 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(ies) identified? ___ Yes ___X___ None reported

Type of auditor's 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:

<u>AL No(s)</u>	<u>Names of Federal Programs or Cluster</u>
66.468	Drinking Water State Revolving Fund (DWSRF) Cluster
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used 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, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2023

2. Findings Related to the Audit of the Basic Financial Statements

Material Weakness

Finding 2023-001

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: A significant audit adjustment is a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. The existence of such material adjustments indicates that Cleveland County Water's system of controls did not detect and prevent such errors. We have provided management with a report of these adjustments.

Effect: Errors could occur in financial reporting. Financial reports used for budget monitoring throughout the year may not properly reflect account balances.

Cause: Debt proceeds are not available to be recorded as accounts receivable and are not due and payable until received.

Recommendation: Management should examine the adjustments required as a result of our audit and implement additional procedures to prevent recurrence of this weakness.

Name of Contact Person: Ginger Fern, Finance Director

Views of Responsible Officials and Corrective Action Plan: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.

3. Findings Related to the Audit of Federal Awards

None.



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CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2023

Financial Statement Findings

Finding 2023-001

Name of Contact Person: Ginger Fern, Finance Director

Corrective Action/Management's Response: Management has a system in place to reduce the likelihood of errors in financial reporting. This includes, when necessary, asking outside independent auditors or other local government experts for clarification when new or unusual circumstances arise, in order to ensure they are accounted for properly. The existence of this particular material adjustment does not indicate that Cleveland County Water's system of internal controls did not detect and prevent such errors. CCW finance staff consulted with prior audit firm staff on this specific issue, and recorded transactions based on their recommendations for the prior two fiscal years, which was determined to be incorrect as a result of the current year audit. This material weakness did not significantly affect revenue or expense accounts, for which budgets exist. Management has examined the adjustments required as a result of the audit and agrees to properly record going forward.

Proposed Completion Date: Immediately and ongoing.

CLEVELAND COUNTY WATER
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2023

None reported.

**CLEVELAND COUNTY WATER
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2023**

Grantor/Pass-through Grantor/Program Title	Federal AL Number	State/ Pass-through Grantor's Number	Federal (Direct & Passed-through) Expenditures	State Expenditures	Passed Through To Subrecipients
Federal Grants:					
<u>U.S. Environmental Protection Agency</u>					
Passed-through the N.C. Department of Environmental Quality: Division of Water Resources:					
Drinking Water State Revolving Fund (DWSRF) Cluster:					
Capitalization Grants for Drinking Water State Revolving Funds	66.468	H-SRF-F-20-1973	\$ 4,424,315	\$ -	\$ -
Capitalization Grants for Drinking Water State Revolving Funds	66.468	H-SRF-F-21-2020	23,897	-	-
Total Drinking Water State Revolving Fund (DWSRF) Cluster			<u>4,448,212</u>	-	-
Total U.S. Environmental Protection Agency			<u>4,448,212</u>	-	-
<u>U.S. Department of Agriculture</u>					
Water and Waste Disposal Systems for Rural Communities	10.760	n/a	3,734,406	-	-
Total U.S. Department of Agriculture			<u>3,734,406</u>	-	-
<u>U.S. Department of Transportation</u>					
Passed-through the N.C. Department of Transportation: Highway Planning, Research and Construction Cluster:					
Highway Planning and Construction (Federal Aid Highway Program)	20.205	34497.1.FS6	22,262	-	-
Highway Planning and Construction (Federal Aid Highway Program)	20.205	34497.1.FS7	22,110	-	-
Total Highway Planning, Research and Construction Cluster			<u>44,372</u>	-	-
<u>U.S. Department of Treasury</u>					
Passed-through State of North Carolina and the N.C. Department of Environmental Quality					
COVID-19 American Rescue Plan Act					
Coronavirus State and Local Fiscal Recovery Funds - Drinking Water Wastewater					
	21.027	SRP-D-ARP-0037	443,887	-	-
COVID-19 American Rescue Plan Act					
Coronavirus State and Local Fiscal Recovery Funds - Drinking Water Wastewater					
	21.027	SRP-D-ARP-0036	276,925	-	-
COVID-19 American Rescue Plan Act					
Coronavirus State and Local Fiscal Recovery Funds - Drinking Water Wastewater					
	21.027	SRP-D-ARP-0038	170,685	-	-
COVID-19 American Rescue Plan Act					
Coronavirus State and Local Fiscal Recovery Funds - Drinking Water Wastewater					
	21.027	SRP-D-ARP-0035	49,520	-	-
COVID-19 American Rescue Plan Act					
Coronavirus State and Local Fiscal Recovery Funds- Drinking Water Wastewater					
	21.027	SRP-D-ARP-0039	37,800	-	-
Total U.S. Department of Treasury			<u>978,817</u>	-	-
Total Federal Assistance			<u>9,205,807</u>	-	-
State Grants:					
<u>N.C. Department of Environmental Quality</u>					
Division of Water Resources					
Lawndale Park on the First Broad River Project	n/a	n/a	-	160,975	-
Total N.C. Department of Environmental Quality			-	<u>160,975</u>	-
<u>N.C. Department of Transportation</u>					
Highway Planning and Construction	DOT -18	34497.1.FS6	-	5,565	-
Highway Planning and Construction	DOT -18	34497.1.FS7	-	5,527	-
Total N.C. Department of Transportation			-	<u>11,092</u>	-
Total State Assistance			-	<u>172,067</u>	-
Total Federal and State Assistance			<u>\$ 9,205,807</u>	<u>\$ 172,067</u>	<u>\$ -</u>

**CLEVELAND COUNTY WATER
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2023**

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

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, 2023. 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.

2. Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the full 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.

3. Loans Outstanding

The Authority had the following loan balances outstanding at June 30, 2023 for loans that the grantor/pass-through grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of loans outstanding at June 30, 2023 consist of:

<u>Program Title</u>	<u>AL Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Amount Outstanding</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468	H-SRF-F-20-1973	\$ 7,949,025

4. Indirect Cost Rate

The Authority has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

5. Cluster of Programs

The following is clustered by the NC Department of Transportation and are treated separately for state audit requirement purposes:
Highway Planning, Research and Construction Cluster