

# **FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2020**

# **TUCKASEIGEE WATER AND SEWER AUTHORITY**

**Sylva, North Carolina**

## **BOARD MEMBERS**

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## **WATER TREATMENT PLANT SUPERINTENDENT**

Steve Buchanan

# TUCKASEIGEE WATER AND SEWER AUTHORITY

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**BURLESON & EARLEY, P.A.**  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Tuckasegee Water and Sewer Authority  
Sylva, North Carolina

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and major funds of the Tuckasegee Water and Sewer Authority as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, based upon our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and major funds of the Tuckasegee Water and Sewer Authority as of June 30, 2020 and the respective changes in financial position and cash flows, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 – 10, the Schedule of Changes in Total OPEB Liability and Related Ratios on page 34, and the Local Government Employee's Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions on pages 35 and 36, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Tuckasegee Water and Sewer Authority. The Schedule of Operating Expenses, Schedule of Revenues and Expenditures – Budget and Actual (Operating Fund), and Schedule of Revenues and Expenditures – Budget and Actual (Capital Improvements Fund) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Operating Expenses, Schedule of Revenues and Expenditures – Budget and Actual (Operating Fund), and Schedule of Revenues and Expenditures – Budget and Actual (Capital Improvements Fund) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial

statements and certain additional procedures; including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit and the procedures performed as described above, the Schedule of Operating Expenses, Schedule of Revenues and Expenditures – Budget and Actual (Operating Fund), and the Schedule of Revenues and Expenditures – Budget and Actual (Capital Improvements Fund) 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 28, 2020, on our consideration of the Tuckasegee Water and Sewer Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Tuckasegee Water and Sewer Authority’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 the Tuckasegee Water and Sewer Authority’s internal control over financial reporting and compliance.

*Burleson & Earley, P.A.*  
Certified Public Accountants  
October 28, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of the Tuckasegee Water and Sewer Authority's activities and financial performance provides the reader with an overview to the financial statements of the Tuckasegee Water and Sewer Authority for the fiscal year ended June 30, 2020. We encourage users to read the information presented here in conjunction with the financial information contained in the various sections of this audit report.

### THE REPORTING ENTITY

The Tuckasegee Water and Sewer Authority (TWSA) was formed by adoption of a "Water and Sewer Consolidation Agreement" in 1992 by the following political subdivisions: Town of Sylva, Town of Dillsboro, Town of Webster, and County of Jackson. The Authority was created for the purpose of providing water and sewer distribution and service to the citizens of these political subdivisions.

TWSA operates around the clock, each day of the year, to provide operations through a water treatment plant, four wastewater treatment plants, over one hundred miles of distribution and collection lines and to generate and collect over 3,300 monthly bills.

### FINANCIAL HIGHLIGHTS

Over the last decade, the Authority customer base has increased by over thirty-percent. Total assets and revenues have doubled during that same decade. A summary of the more significant financial details for the fiscal year ended June 30, 2020 is as follows:

- The assets and deferred outflows of resources of the Tuckasegee Water and Sewer Authority exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$38,845,924 (*net position*).
- The Tuckasegee Water and Sewer Authority's total net position *increased* by \$84,038, due to operating income of \$117,769 and capital contributions of \$465,448 exceeding net nonoperating expenses of \$499,179.
- During the year, the Authority deducted \$242,851 of cumulative costs, as a nonoperating expenses, for projects in process from prior years that will not be completed.
- During the year, the Authority received land by contribution from Jackson County at a value of \$74,186. The land is at the Whittier Sewer Plant.
- The following actual operating results as compared to budgeted amounts generated positive results for the Authority: operating revenues were less than the approved budget by (\$151,031), operating expenses (net of depreciation and amortization) for the fiscal year were below budget by \$377,574 and operating net income exceeded budget by \$226,543.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of two components: 1) the financial statements, and 2) notes to the financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Tuckasegee Water and Sewer Authority.

The basic financial statements are prepared using the full accrual basis of accounting. They consist of three statements. The first is the Statement of Net Position. Assets and liabilities are classified between current and long-term. This statement provides a summary of the Authority's investments in assets, deferred outflows of resources, obligations to creditors and deferred inflows of resources. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

The next statement is the Statement of Revenues, Expenses, and Changes in Net Position. This statement is used in evaluating whether the Authority has recovered all of its costs through revenues. Its information is used in determining credit worthiness.

The final required statement is the Statement of Cash Flows. This statement reports cash inflows and outflows in the following categories: operating, investing, and financing activities. Based on this data, the user can determine the sources of cash, and the change in cash.

The Notes to the Financial Statements provide more detail information and should be read in conjunction with the statements.

## FINANCIAL POSITION SUMMARY

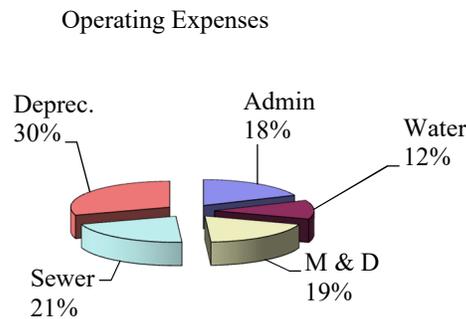
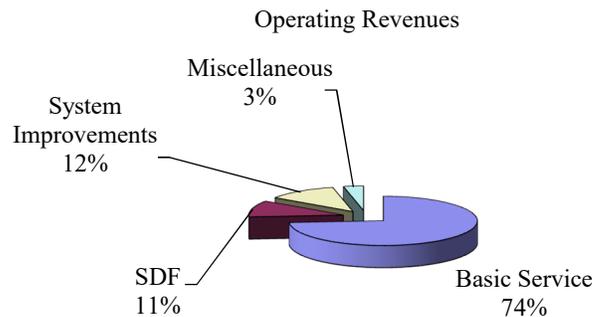
Net position may serve over time as one useful indicator of the Authority's financial condition. The Authority's assets and deferred outflows exceeded liabilities and deferred inflows by \$38.8 million at June 30, 2020, an \$84,038 *increase* from June 30, 2019.

<b>At June 30</b>	<b>2020</b>	<b>2019</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Assets</b>				
Current and Other Assets	\$ 16,223,484	\$ 15,360,052	\$ 863,432	5.6%
Capital Assets	35,723,505	36,404,314	(680,809)	-1.9%
<b>Total Assets</b>	<b>51,946,989</b>	<b>51,764,366</b>	<b>182,623</b>	<b>0.4%</b>
<b>Deferred Outflows of Resources</b>	<b>550,295</b>	<b>405,300</b>	<b>144,995</b>	<b>35.8%</b>
<b>Liabilities</b>	<b>13,525,085</b>	<b>13,279,378</b>	<b>245,707</b>	<b>1.9%</b>
<b>Deferred Inflows of Resources</b>	<b>126,275</b>	<b>128,402</b>	<b>(2,127)</b>	<b>-1.7%</b>
<b>Net Position</b>				
Net Investment in Capital Assets	25,277,068	25,787,421	(510,353)	-2.0%
Restricted for Capital Projects	553,297	483,605	69,692	14.4%
Unrestricted	13,015,559	12,490,860	524,699	4.2%
<b>Total Net Position</b>	<b>\$ 38,845,924</b>	<b>\$ 38,761,886</b>	<b>\$ 84,038</b>	<b>0.2%</b>

## SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION

For the Fiscal Year Ended June 30	2020	2019	\$ Change	% Change
Operating Revenues	\$ 5,508,357	\$ 5,501,383	\$ 6,974	0.1%
Operating Expenses	5,390,588	5,121,523	269,065	5.3%
Operating Income (Loss) Before Nonoperating Revenues and Expenses	117,769	379,860	(262,091)	-69.0%
Nonoperating Revenues and Expenses, net	(499,179)	(137,981)	(361,198)	261.8%
Capital Contributions	465,448	12,192	453,256	3717.7%
Increase in Net Position	84,038	254,071	(170,033)	-66.9%
Net Position, July 1	38,761,886	38,507,815	254,071	0.7%
Net Position, June 30	\$ 38,845,924	\$ 38,761,886	\$ 84,038	0.2%

The daily operations of the Tuckasegee Water and Sewer Authority are funded through the collection of water and sewer revenues. The customer base includes a mixture of single and multi-family residential, commercial, institutional, and industrial.



## SUMMARY OF CASH FLOW ACTIVITIES

The following shows a summary of the major sources and uses of cash and cash equivalents. Cash equivalents are considered cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

<b>For the Fiscal Year Ended June 30</b>	<b>2020</b>	<b>2019</b>	<b>\$ Variance</b>	<b>% Variance</b>
Cash Flows from Operating Activities	\$ 2,080,690	\$ 2,040,843	\$ 39,847	2.0%
Cash Flows from Capital and Related Financing Activities	(1,718,954)	(1,480,052)	(238,902)	16.1%
Cash Flows from Investment Activities	201,589	314,908	(113,319)	-36.0%
Net Increase (Decrease) in Cash and Cash Equivalents	563,325	875,699	(312,374)	-17.9%
Cash and Cash Equivalents, beginning of year	14,551,694	13,675,995		
Cash and Cash Equivalents, end of year	<u>\$ 15,115,019</u>	<u>\$ 14,551,694</u>		

## CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

During fiscal year 2020, the Authority expended approximately \$1.1 million on capital activities. Acquisitions are funded using a variety of techniques, including State and Federal loans and grants, bond issuance and operating revenues. The following includes some of the more significant capital outlay purchases, excluding capital projects:

- SCADA system upgrade at lift stations
- Computer upgrades
- 2 – Ford Ranger trucks
- Various distribution systems equipment upgrades
- Land contribution from Jackson County

### Capital Assets (net of depreciation)

	<b>2020</b>	<b>2019</b>	<b>\$ change</b>	<b>% Change</b>
Land	\$ 1,645,763	\$ 1,571,577	\$ 74,186	4.7%
Capital projects	1,921,301	1,296,171	625,130	48.2%
Administrative buildings	388,709	412,880	(24,171)	-5.9%
Plant and distribution systems	30,896,644	32,225,330	(1,328,686)	-4.1%
Furniture and fixtures	68,577	73,969	(5,392)	-7.3%
Computer equipment	660,528	698,394	(37,866)	-5.4%
Equipment	64,279	71,951	(7,672)	-10.7%
Vehicles	77,704	54,042	23,662	43.8%
Total	<u>\$ 35,723,505</u>	<u>\$ 36,404,314</u>	<u>\$ (680,809)</u>	-1.9%

## DEBT ADMINISTRATION

The Authority has outstanding debt associated with the construction of capital improvements. At June 30, 2020, long term debt totals \$10,363,006.

	Balance 6/30/2019	Borrowings	Repayments	Balance 6/30/2020
Direct Placement Installment Purchase	\$ 1,069,256	\$ -	\$ 82,250	\$ 987,006
Water and Sewer System Revenue Bonds	9,517,000	-	141,000	9,376,000
	<u>\$ 10,586,256</u>	<u>\$ -</u>	<u>\$ 223,250</u>	<u>\$ 10,363,006</u>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

There is no question that FY 2019-20 has been a challenging year for TWSA. The beginning of the year included a recovery of a major software change in Administration and the exit of Dan Harbaugh as Executive Director. The second quarter included a major component of the Wastewater Treatment Plant #1 having a costly failure (lasting through the end of the year), while the third and fourth quarter were unprecedented with the COVID-19 pandemic having a major impact on the world. To say that the year has presented challenges would be a massive understatement. At the same time, while the majority of the TWSA service area did not see major development in residential or commercial building, off-campus student housing at Western Carolina University (WCU) grew more in FY 19/20 than any other year in recent history, adding slightly over 1,000 bedrooms to the Cullowhee community.

As WCU continues to grow, there is more development in the Cullowhee service area. Part of this development is not only with student housing as mentioned above, but as an institution, including academic and community-use facilities with their "Millennial Initiative" plan. With this plan, they are able to partner with private industry and government entities to further develop training facilities. This is particularly applicable to their "West Campus" area comprised of 344 acres that is currently part of the TWSA service area. In the coming years, with little room to grow within the main campus area, the West Campus area will contain additional academic and clinical development.

Most likely due to COVID-19, or perhaps due to the greatly increased availability of new student housing over the last 2 years, it is evident that the trend for new off-campus student housing projects almost every year has been halted. While typically there are several developers planning and discussing their projects with Jackson County and TWSA, it appears they are currently being cautious regarding future demands before moving forward. At this time there are no new student housing projects being constructed.

Jackson County, as a whole, continues to see low demand levels for new commercial and residential construction. Jackson County recognizes this and has several different economic development and housing related committees that TWSA is involved with. A major area of focus has been with small business and low-income housing. In recognition of feedback from these committees and other input received by the TWSA Board of Directors, reductions in System Development Fees (SDFs) were made for the lower tiers of the user categories. This reduction reduced by half the SDFs for many small businesses or housing projects including the removal of SDFs for a 3-bedroom home or smaller. The larger tiers were not changed from the previous year.

Major steps have been taken in this reporting period to advance the progress with the new wastewater treatment plant in the Cashiers community (Horsepasture River WWTP). The design for the project was

completed with an expected construction start date in early 2021. For the southern system, this project is anticipated to prompt new growth when the first phase of the project is completed in the spring of 2023, having a capacity of 125,000 gallons per day.

In the absence of generalized customer growth in FY 2020-21, Tuckasegee Water and Sewer Authority will continue to face pressure to control user rate increases, while at the same time facing the need to produce adequate operating revenue to cover costs including debt service. However, due to COVID-19 and the many economic hardships being felt across our nation, the TWSA Board of Directors felt that this was not the year to increase rates. It was recognized that adjustments would most certainly need to be made in future years, but cuts in expenditures would have to be made to accommodate anticipated reduced revenues

It is to be noted, that in spite of the pandemic and no rate increases, TWSA ended in a positive financial position in FY 2019-20, with a positive operating income of \$117,769 after depreciation and amortization.

This positive cash flow does not necessarily reflect that the economic fundamentals have significantly changed, as noted above. In fact, with the COVID-19 pandemic it is difficult to develop any true reflections other than decreased revenues for the second half of FY 2019-20. TWSA must make decisions regarding rate increases for future years. Sustained increases in cash flow for this type of utility, typically are the result of proper control of expenses, appropriate rate increases, and growth in customer base. Labor costs remained in control with savings in salaries and labor burden items. These factors and good management by the TWSA department supervisors yielded another year with expenses below budget.

Even with this favorable position at the end of FY 2019-20, budget decisions by the Authority will continue to be driven by debt service obligations. In addition to the current debt service payments, there will be new debt service acquired in the near future. This additional debt service will fund: the new WWTP in Cashiers, Valhalla Apartments Water System Consolidation, the Jackson Paper and Dollar Store Lift Station Replacement in Sylva, the Cowan Valley Water System Consolidation, and two phases of renovations at WWTP #2 in Dillsboro. In addition, we need to construct a new clear well and begin planning for an expansion of the Water Treatment Plant in Cullowhee in the near future. Recent positive trends in the budget year end positions will put TWSA in a favorable place as new debt service items are acquired. In spite of this, TWSA must continue to budget carefully, plan accurately, and execute the Capital Improvement Plan in a deliberate manner to maintain control of the cash flow position.

To greatly assist with updating the Capital Improvement Plan, TWSA is continuing to work on an Asset Inventory and Assessment Project to review the current water and sewer assets owned and operated by this organization. This is being done to validate the inventory on record, establish its current condition and service level, validate the lifespan at construction and remaining, and establish the “criticality” of each asset. This process is used to identify the right timing of future capital projects to sustain or upgrade the assets. This project will also review the Geographic Information System (GIS) and ensure that accurate and complete data is produced for all asset records. This project is intended to provide a platform for future asset management and maintenance management systems. Once completed (expected in the fall of 2020), a revised 20-year Capital Improvement Plan will be presented to the Board and should provide a more detailed guide for future financial planning.

A new factor that will affect future capital revenues is the current drive to reduce System Development Fees. The impact from the changes to the capital revenue stream produced by the reduction of these fees

must be supplemented with a future increase in other fees that contribute to capital reserves. This is most likely addressed with rate increases to monthly System Improvement Charges (SICs), however this was not implemented for the FY 2020-21 rate schedule due to the aforementioned COVID-19 pandemic. These tools will become more important as Tuckasegee Water and Sewer Authority continues to be challenged to overcome a backlog of deferred repairs and renovations as budgets were held to a minimum during the economic downturn. There are a number of identified capital needs which are pending with some funded and others being discussed or planned. A dialogue continues between TWSA Staff and Board Members regarding the proper mixture of funds allocated to “sustainment” of existing assets versus those funds targeting construction of “expansion” projects. The goal of these discussions continues to be that Tuckasegee Water and Sewer Authority will reach a point of balance where assets are managed in a sustainable manner and new requirements are met on time. This effort includes establishing a 20 year CIP with an expanded set of designated reserves and the careful scheduling of projects so that expenses are fully recognized in future operational cash flows. In addition, the TWSA Board did approve the establishment of operating and capital reserve floors to ensure that future budgets are sustainable. As we transition into this long term approach, existing and new debt service payments, as well as funding for immediate major project needs will continue to place constraints on budget decisions and some transfers from reserves are anticipated to be necessary. Future transfers should be viewed as a rate stabilization activity and not be long term in nature. The goal is to reach a point where the annual budget adjustment recommendations should target an annual rate adjustment ceiling that is close to the Municipal Cost Index (MCI \*), while considering changes in customer base and capital expenses. It is also critical to move forward on projects once they have been funded, as construction expenses have drastically increased over the last few years.

The final part of achieving balance between “expansion” and “sustainment” projects and planning for capital debt in the future, involves the most recent “Comprehensive Plan” for Tuckasegee Water and Sewer Authority which was published in 2000, with no interim revision. An effort to update this system-wide planning document began in FY 2013-14 and continues today with the Asset Inventory and Assessment Projects. Comprehensive Plans for all of the TWSA forming entities are either complete or in progress. By design, the issuance of a revised Comprehensive Plan for Tuckasegee Water and Sewer Authority needs to incorporate the most current input of similar planning work by these forming entities. Our revised “Comprehensive Plan” must be “synchronized” with the planning work of these forming entities. This synchronization will be a critical element in making good capital investment decisions in the future. Advanced planning, such as this, is essential to efforts to accurately forecast the economic factors that affect our business. If done correctly and kept current by ongoing revisions, it will result in an accurate road map for budget development in the future. We anticipate entering into this TWSA Comprehensive Plan Update process in the near future, in hopes that the COVID-19 pandemic does not impede these discussions.

*\* The MCI was created in 1978 and is a standard measure of the costs of local government services which uses a combination of the Construction Cost Index, Consumer Price Index and Producer Price Index to generate a cost basis that more closely reflects the expenses incurred in operating governmental operations.*

## **REQUESTS FOR INFORMATION**

This report is designed to provide an overview of the Authority’s finances for those with an interest in this area. Questions concerning any of the information found in this report, or requests for additional information, should be directed to the Executive Director, Tuckasegee Water and Sewer Authority, 1246 W. Main Street, Sylva, NC 28779.

## **BASIC FINANCIAL STATEMENTS**

# TUCKASEIGEE WATER AND SEWER AUTHORITY

## Statement of Net Position June 30, 2020

### Assets

#### Current assets:

##### Unrestricted assets:

Cash and cash equivalents	\$ 14,243,816
Accounts receivable	654,008
Capital project receivables	372,338
Other receivables	49,027
Prepaid expenses	33,092
Total unrestricted assets	<u>15,352,281</u>

##### Restricted assets:

Cash and cash equivalents	<u>871,203</u>
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Total current assets	<u>16,223,484</u>
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#### Noncurrent assets:

##### Capital assets:

Land and construction in progress	3,567,064
Other capital assets, net of depreciation	32,156,441
Capital assets	<u>35,723,505</u>
Total noncurrent assets	<u>35,723,505</u>

<b>Total assets</b>	<u>51,946,989</u>
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#### Deferred outflows of resources

Pension deferrals	341,185
OPEB deferrals	209,110
Total deferred outflows of resources	<u>550,295</u>

### Liabilities

#### Current liabilities:

Current portion long term debt	230,250
Accounts payable	67,171
Construction contracts payable	83,431
Accrued payroll and related taxes	24,978
Customer deposits	317,906
Accrued interest	32,951
Total current liabilities	<u>756,687</u>

#### Noncurrent liabilities:

Accrued vacation pay	132,251
Net pension liability	492,931
Total OPEB liability	2,010,460
Long term debt	10,132,756
Total noncurrent liabilities	<u>12,768,398</u>

#### Deferred inflows of resources

Pension deferrals	-
OPEB deferrals	126,275
Total deferred inflows of resources	<u>126,275</u>

#### Net position:

Net investment in capital assets	25,277,068
Restricted for capital projects	553,297
Unrestricted	13,015,559
Total net position	<u>\$ 38,845,924</u>

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

# TUCKASEIGEE WATER AND SEWER AUTHORITY

## Statement of Revenues, Expenses and Changes in Fund Net Position For the Year Ended June 30, 2020

### Operating revenue:

#### Water:

Basic service	\$ 1,610,575
System development fee	209,684
Reconnects	18,900
Tap fees	7,440

#### Sewer:

Basic service	2,454,426
System development fee	383,505
Tap fees	3,200

#### Other:

Late fees	45,000
Miscellaneous	55,802
System improvement charges	661,398
System availability charges	21,205
Special charges	9,222
Operating grants	28,000
Total revenue	<u>5,508,357</u>

### Operating expenses:

Administration	995,858
Water	635,978
Maintenance and distribution	1,011,049
Sewer	1,128,954
Depreciation and amortization	1,618,749
Total expenses	<u>5,390,588</u>

Operating income (loss)	117,769
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### Nonoperating revenues (expenses):

Investment earnings	201,589
Cumulative costs of parked projects	(242,851)
Interest on indebtedness	(418,187)
Gain (loss) on disposal of assets	(39,730)
Total nonoperating revenues (expenses)	<u>(499,179)</u>

Capital contributions	<u>465,448</u>
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### Net position

Increase (decrease) in net position	84,038
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Total net position, beginning of year	<u>38,761,886</u>
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Total net position, end of year	<u>\$ 38,845,924</u>
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The accompanying notes are an integral part of these financial statements.

# TUCKASEIGEE WATER AND SEWER AUTHORITY

## Statement of Cash Flows For the Year Ended June 30, 2020

### Cash flows from operating activities:

Cash received from customers	\$ 5,523,420
Cash paid for goods and services	(1,963,791)
Cash paid to employees for services	(1,562,741)
Other operating revenues	83,802
Net cash provided by operating activities	<u>2,080,690</u>

### Cash flows from capital and related financing activities:

Acquisition and construction of capital assets	(1,107,271)
Insurance recovery proceeds	8,326
Grant proceeds	21,947
Interest payments on debt maturities	(418,706)
Principal payments on debt maturities	(223,250)
Net cash used by capital and financing activities	<u>(1,718,954)</u>

### Cash flows from investing activities:

Interest on investments	<u>201,589</u>
Net increase in cash and cash equivalents	563,325
Cash and cash equivalents, beginning of year	14,551,694
Cash and cash equivalents, end of year	<u>\$15,115,019</u>

### Reconciliation of operating income to net cash provided by operating activities:

Operating income	<u>\$ 117,769</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	1,618,749
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	59,790
(Increase) decrease in other receivables	10,392
(Increase) decrease in prepaid expenses	4,429
(Increase) decrease in deferred outflows of resources-pensions	44,156
(Increase) decrease in deferred outflows of resources-OPEB	(189,151)
Increase (decrease) in accounts payable	(31,009)
Increase (decrease) in accrued payroll and related taxes	13,691
Increase (decrease) in customer deposits	39,075
Increase (decrease) in net pension liability	51,913
Increase (decrease) in OPEB liability	331,458
Increase (decrease) in deferred inflows of resources-pensions	(2,283)
Increase (decrease) in deferred inflows of resources-OPEB	156
Increase (decrease) in accrued vacation pay	11,555
Total adjustments	<u>1,962,921</u>
Net cash provided by operating activities	<u>\$ 2,080,690</u>

### Noncash Capital and Related Financing Activities:

Land received by contribution from Jackson County	<u>\$ 74,186</u>
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The accompanying notes are an integral part of these financial statements.

# TUCKASEIGEE WATER AND SEWER AUTHORITY

## Notes to Financial Statements For the Year Ended June 30, 2020

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Tuckaseegee Water and Sewer Authority conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

#### A. Reporting Entity

The Tuckaseegee Water and Sewer Authority (Authority) is a public body and a body politic and corporate created under the authority of Chapter 162A-1 of the General Statutes of North Carolina. The Authority was formed by resolution by the following political subdivisions: Authority of Sylva, Authority of Dillsboro, Authority of Webster, and County of Jackson. The Authority was created for the purpose of providing water and sewer distribution and service to the citizens of the aforementioned political subdivisions.

In accordance with GASB Statement 14, the basic criterion of separate legal standing and fiscal independence were used to determine that the Authority was a separate reporting entity. The seven-member Board of Directors is appointed to their terms by each political subdivision on the following appointment:

Authority of Sylva - three members  
Authority of Dillsboro - one member  
Authority of Webster - one member  
County of Jackson - two members

In addition, one ex-officio non-voting member representing Western Carolina University is appointed by the Chancellor of WCU. Three members of the initial board were given varied terms as authorized by G.S. 162A-5, not exceeding three years. A member shall, however, only be eligible to serve three consecutive three year terms. The Board of Directors appoints an Executive Director to oversee the daily operations of the Authority and the management of the employees. The political subdivisions provide no financial support, beyond the terms of the consolidation and transfer agreements, and are not responsible for the debts or entitled to the surpluses of the Authority. The Authority has the power to approve its own budget, and it maintains its own accounting system.

#### B. Basis of Presentation

Fund financial statements provide information about the Authority's funds. Statements for the proprietary fund category are presented.

Proprietary Funds include the following fund type:

*Enterprise Funds* – Enterprise Funds account for those 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 use charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Authority has one Enterprise Fund for their water and sewer operations. For financial reporting purposes, the Capital Project Fund has been consolidated with the Enterprise Fund.

C. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus. These statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise funds are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Data

The Authority's budgets are adopted as required by the North Carolina General Statutes. An annual operating budget is adopted for the enterprise fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Capital Improvements Funds. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

1. Deposits and Investments

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

State law [G.S. 159-30 (c)] authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The Authority's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT-Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2020, the Term portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

The Authority pools money from several funds to facilitate disbursement and investment and to maximize investment income. The Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

Capital revenue contributions or remaining bond proceeds are classified as restricted assets because they are designated capital projects and cannot be expended for any other item. Customer deposits held by the Authority, before any services are supplied, are restricted to the service for which the deposit was collected.

<u>Tuckasegee Water and Sewer Authority Restricted Cash</u>	
<u>Water and Sewer Fund</u>	
Customer Deposits	\$ 317,906
Debt service	553,297
Total Restricted Cash	<u>\$ 871,203</u>

4. Accounts Receivable

Trade receivables represent uncollected revenue that was earned and billed in the year ended June 30, 2020.

Unbilled revenue represents revenues that were earned in the year ended June 30, 2020, but not billed in that year.

Grants receivable represents amounts that were earned during the year and not received that are associated with capital improvements projects.

Other receivables represent the sales tax refund due from the North Carolina Department of Revenue for the sales tax paid during the fiscal year ended June 30, 2020.

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

5. Prepaid Expense

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements and expenses as the expenses are incurred.

6. Capital Assets

The Authority's capital assets are defined as assets with an initial, individual cost of more than a certain amount. Minimum capitalization costs are as follows: office furniture and equipment, \$1,000; all other capital assets, \$5,000. Donated capital assets, including the contributions by the organizing political subdivisions, received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Assets are depreciated on a straight-line basis over the following years:

Non-dwelling structures	40 years
Plant and distribution systems	10 - 50 years
Furniture and fixtures	7 - 25 years
Office equipment	5 years
Computer equipment	5 - 15 years
Maintenance equipment	5 - 50 years
Vehicles	5 years

7. Customer Deposits

Customer deposits represent the liability of the Authority for the deposits placed by customers at the opening of their account. The required deposit can vary, depending on several factors, but is most often \$100 per customer, payable to the Authority prior to the installation of service. This deposit is refundable at the time service is discontinued assuming there is no outstanding balance in the customer's account.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflow of Resources*; represents a consumption of net position that applies to

a future period and so will not be recognized as an expense or expenditure until then. The Authority has one item that meets this criterion, pension deferrals for the 2020 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority has one item that meets this criterion, pension deferrals.

9. Long-Term Obligations

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

10. Compensated Absences

The Authority allows its full time employees to accrue vacation leave using a board-approved scale based upon years of service. The maximum accrual is 240 hours and is payable up to such maximum amount upon termination. At the end of the calendar year hours accrued in excess of 240 are converted to sick leave. The current portion of accumulated vacation pay and salary related payments are not considered to be material. Compensated absences are presented as a non-current liability in these financial statements.

Employees can accumulate an unlimited amount of sick leave at a rate of 8 hours per month or 12 days per year. Sick leave does not vest but unused sick leave accumulated at the time of retirement may be used in determination of length of service for retirement benefits purposes. Since the Authority has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position

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

12. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Tuckaseegee Water and Sewer Authority's employer contributions are

recognized when due and the Tuckaseegee Water and Sewer Authority has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

**Note 2 - Detailed Notes on All Funds**

A. Assets

1. Deposits and Investments

All of the Authority’s deposits are either insured or collateralized by using the Pooling method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer’s agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Authority, these deposits are considered to be held by the Authority’s agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Authority or escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Authority under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Authority does not have a deposit policy for custodial credit risk.

At June 30, 2020, the Authority’s deposits had a carrying amount of \$15,092,103, and a bank balance of \$15,129,560. Of the bank balance, \$250,000 was covered by Federal Depository Insurance and \$14,879,560 was covered by collateral held under the Pooling Method.

The Authority maintains \$400 in petty cash on hand.

At June 30, 2020, the Authority had \$22,516 invested with the North Carolina Capital Management Trust’s Government Portfolio, which carried a credit rating of AAAM by Standard and Poor’s. The Authority has no policy regarding credit risk.

2. Receivables

The receivables consist of the following at June 30, 2020:

Customers billed	\$ 436,095
Allowance for doubtful accounts	(23,530)
Unbilled revenues	<u>241,443</u>
Total accounts receivable	<u>\$ 654,008</u>

Sales tax receivable	\$ 48,431
Other	<u>596</u>
	<u>\$ 49,027</u>

Grants receivable	\$ 359,074
NCDOT reimbursement	<u>13,264</u>
Capital projects receivable	<u>\$ 372,338</u>

3. Capital Assets

The capital assets of the Tuckasegee Water and Sewer Authority at June 30, 2020 consist of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,571,577	\$ 74,186	\$ -	\$ 1,645,763
Capital projects	1,296,171	945,416	320,286	1,921,301
Total capital assets not being depreciated	<u>2,867,748</u>	<u>1,019,602</u>	<u>320,286</u>	<u>3,567,064</u>
Capital assets being depreciated:				
Administrative buildings	766,359	-	-	766,359
Plant and distribution systems	52,428,260	193,800	108,316	52,513,744
Furniture and fixtures	189,133	-	-	189,133
Computer equipment	1,119,783	28,427	-	1,148,210
Equipment	582,112	7,827	-	589,939
Vehicles	474,117	56,626	-	530,743
Total capital assets being depreciated	<u>55,559,764</u>	<u>286,680</u>	<u>108,316</u>	<u>55,738,128</u>
Less accumulated depreciation for:				
Administrative buildings	353,479	24,171	-	377,650
Plant and distribution systems	20,202,930	1,474,430	60,260	21,617,100
Furniture and fixtures	115,164	5,392	-	120,556
Computer equipment	421,389	66,293	-	487,682
Equipment	510,161	15,499	-	525,660
Vehicles	420,075	32,964	-	453,039
Total accumulated depreciation	<u>22,023,198</u>	<u>1,618,749</u>	<u>60,260</u>	<u>23,581,687</u>
Total capital assets being depreciated, net	<u>33,536,566</u>	<u>(1,332,069)</u>	<u>48,056</u>	<u>32,156,441</u>
Business-type activities capital assets, net	<u>\$ 36,404,314</u>	<u>\$ (312,467)</u>	<u>\$ 368,342</u>	<u>\$ 35,723,505</u>

Construction Commitments

At June 30, 2020, the Authority has active construction projects. At year end, the Authority's commitments related to these projects total \$421,005.

## Grant Awards

The Authority has the following outstanding grant awards for specific capital asset projects:

<u>Grantor/Project</u>	<u>Award Amount</u>	<u>Amount Earned to Date</u>	<u>Amount Remaining</u>
<b><u>State of North Carolina - Division of Water Infrastructure</u></b>			
Water Asset Inventory and Assessment - Phase 1	\$ 75,225	\$ 36,102	\$ 39,123
Wastewater Asset Inventory and Assessment - Phase 1	\$ 74,801	\$ 37,380	\$ 37,421
Water Asset Inventory and Assessment - Phase 2	\$ 71,425	\$ -	\$ 71,425
Wastewater Asset Inventory and Assessment - Phase 2	\$ 71,750	\$ -	\$ 71,750
Water Merger/Regionalization Study	\$ 50,000	\$ -	\$ 50,000
Valhalla Water System Consolidation	\$ 499,985	\$ 356,427	\$ 143,558
Jackson Paper Lift Station Improvements	\$ 378,800	\$ -	\$ 378,800
<b><u>Golden Leaf Foundation</u></b>			
WWTP - Horseshoe Pasture River	\$ 460,800	\$ -	\$ 460,800
<b><u>United States Department of Agriculture</u></b>			
WWTP - Horseshoe Pasture River	\$ 1,745,000	\$ -	\$ 1,745,000

On August 1, 2017, the Authority received, from the North Carolina Division of Water Infrastructure, a letter of intent to fund in amounts totaling \$1,515,200 for the Jackson Paper and Dollar General Lift Station Improvements project. These funds consist of a grant of \$378,800 and a state loan, with zero interest, in the amount of \$1,136,400. The Local Government Commission approved this loan on August 6, 2019.

On January 25, 2018, the Authority received, from the United States Department of Agriculture, notification that their application for Water and Environmental Program funds has been approved for the Horsepasture River WWTP and Collections System Improvements project. The funds requested include a loan amount of \$4,832,000, with interest of 2.125%, and a grant amount of \$1,745,000. Additionally, in April 2016, the Authority was awarded a grant from the Golden Leaf Foundation in the amount of \$460,800 for this project.

On March 1, 2018, the Authority received, from the North Carolina Division of Water Infrastructure, a letter of intent to fund in the amount of \$323,040 for the Cowan Valley Homeowner Association Water System Consolidation project. These funds consist of a state reserve project loan, with a maximum interest rate of 1.82%. The Local Government Commission approved this loan on September 10, 2019.

On March 1, 2018, the Authority received, from the North Carolina Division of Water Infrastructure, a letter of intent to fund in the amount of \$2,576,600 for the WWTP #2 Improvements – Phase 1 project. These funds consist of a state reserve project loan, with a maximum interest rate of 1.82%. The Local Government Commission approved this loan on September 10, 2019.

On March 6, 2020, the Authority received, from the North Carolina Division of Water Infrastructure, a letter of offer and acceptance for a State Loan in the amount of \$4,595,300 for the WWTP #2 Improvements – Phase 2 project. These funds consist of a state revolving loan, with a zero percent interest rate.

## B. Liabilities

### 1. Local Governmental Employees' Retirement System

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

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

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if

killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The Authority does not have LEO employees.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Tuckaseegee Water and Sewer Authority employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Tuckaseegee Water and Sewer Authority's contractually required contribution rate for the year ended June 30, 2020, was 9.03% for employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Tuckaseegee Water and Sewer Authority were \$138,072 for the year ended June 30, 2020.

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

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

At June 30, 2020, the Authority reported a liability of \$492,931 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019, the Authority's proportion was 0.01805%, which was a decrease of 0.00054% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Authority recognized pension expense of \$231,858. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 84,402	\$ -
Changes of assumptions	80,340	-
Net difference between projected and actual earnings on pension plan investments	12,023	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	26,348	-
Authority contributions subsequent to the measurement date	138,072	-
Total	<u>\$ 341,185</u>	<u>\$ -</u>

\$138,072 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
2021	\$ 97,745
2022	34,180
2023	53,827
2024	17,361
2025	-
Thereafter	-
	<u>\$ 203,113</u>

*Actuarial Assumptions.* The total pension liability in the December 31, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2014 through December 31, 2018.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2018 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

	<b>1% Decrease</b> <b>(6.00%)</b>	<b>Discount</b> <b>Rate</b> <b>(7.00%)</b>	<b>1%</b> <b>Increase</b> <b>(8.00%)</b>
Authority's proportionate share of the net pension liability (asset)	\$ 1,127,424	\$ 492,931	\$ (34,461)

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

2. Supplemental Retirement Plan

The Authority provides employees with the opportunity to participate in a 401(k) Plan through a private carrier. Employee contributions to the plan are voluntary. The Authority does not match contributions to this plan.

3. Other Postemployment Benefits

Healthcare Benefits

*Plan Description.* Under the terms of an Authority resolution, the Authority administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

*Benefits Provided.* The Authority provides postemployment healthcare benefits to retirees of the Authority that were hired before June 30, 2005 and are sixty-two years of age and have accumulated ten years of service covered by the North Carolina Local Governmental Employees' Retirement System (System) and are eligible for early retirement or have thirty years of service with the System or have ten years of service with the system and are approved for disability retirement with the System. The Authority pays the full cost of coverage for these benefits. Upon attaining age 65 or becoming eligible for Medicare disability retirement, the retiree must switch to a Medicare Supplement plan in order to continue to receive lifetime benefits. A separate report was not issued for the plan.

Membership of the HCB Plan consisted of the following at June 30, 2019, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	5
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	11
Total	<u>16</u>

## Total OPEB Liability

The Authority's total OPEB liability was measured as of June 30, 2019 and was determined by an actuarial valuation as of that date.

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

Inflation	2.5 percent
Salary increases	3.5–7.75 percent, average, including wage inflation
Discount rate	3.50 percent
Healthcare cost trend rates	Pre-Medicare – 7.0% Medicare – 5.0% Dental – 4.0%

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.

## Changes in the Total OPEB Liability

	<b>Total OPEB Liability</b>
<b>Balance at July 1, 2019</b>	\$ 1,679,002
<b>Changes for the year:</b>	
Service cost	85,946
Interest	125,577
Changes of benefit terms	-
Differences between expected and actual experience	227,252
Changes in assumptions or other inputs	(88,044)
Benefit payments	(19,273)
<b>Net changes</b>	<u>331,458</u>
<b>Balance at June 30, 2020</b>	<u><u>\$ 2,010,460</u></u>

Mortality rates were based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period January 2010 through December 2014.

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

	<b>1% Decrease (2.50%)</b>	<b>Discount Rate (3.50%)</b>	<b>1% Increase (4.50%)</b>
Total OPEB liability	\$ 2,340,688	\$ 2,010,460	\$ 1,743,207

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.* The following presents the total OPEB liability of the Authority, as well as what the Authority'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:

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
Total OPEB liability	\$ 1,720,737	\$ 2,010,460	\$ 2,371,265

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

For the year ended June 30, 2020, the Authority recognized OPEB expense of \$173,086. At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 178,487	\$ 2,725
Changes of assumptions	-	123,550
Benefit payments and administrative costs made subsequent to the measurement date	30,623	-
Total	<u>\$ 209,110</u>	<u>\$ 126,275</u>

\$30,623 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2021	\$ 7,294
2022	7,294
2023	26,037
2024	11,588
2025	-
Thereafter	-

4. Deferred Outflows and Inflows of Resources

The Authority has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

Source	Amount
Contributions to pension plan in current fiscal year	\$ 138,072
Benefit payments and administrative expenses for OPEB made subsequent to measurement date	30,623
Differences between expected and actual experience	262,889
Net difference between projected and actual earnings on pension plan investments	12,023
Changes of assumptions	80,340
Changes in proportion and differences between employer contributions and proportionate share of contributions	26,348
Total	<u>\$ 550,295</u>

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

Source	Amount
Changes in assumptions	\$ 123,550
Differences between expected and actual experience	2,725
Total	<u>\$ 126,275</u>

5. Commitments

Leasing Arrangements

The Authority leases a copier under a 60 month noncancelable lease, expiring in October 2023, with monthly payments of \$331. The Authority leases a postage machine under a 51 month noncancelable lease, expiring in March 2020, with quarterly payments of \$106. This lease continues on a month-to-month basis. The following is a schedule of future minimum rental payments required under the operating lease as of June 30, 2020:

Year Ending	Minimum Rental Payments
June 30	
2021	\$ 3,972
2022	\$ 3,972
2023	\$ 3,972
2024	\$ 993

6. Long Term Obligations

Direct Placement Installment Purchase

On February 14, 2011, the Authority executed a direct placement installment purchase with the State of North Carolina for loans made by the Department of Environment and Natural Resources to fund the water plant expansion. These funds were primarily funded by the American Recovery Revitalization Act of 2009. One note, with an original balance of \$145,008, bears interest at 2.48% and the remaining \$1,500,000 is non-interest bearing. The loan balances are amortized over a 20 year term.

The future payments of the note for the years ending June 30<sup>th</sup>, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 82,250	\$ 2,158	\$ 84,408
2022	82,250	1,978	84,228
2023	82,250	1,798	84,048
2024	82,250	1,618	83,868
2025	82,250	1,438	83,688
2026-2030	411,250	4,495	415,745
2031-2032	<u>164,506</u>	<u>539</u>	<u>165,045</u>
	<u>\$ 987,006</u>	<u>\$ 14,024</u>	<u>\$1,001,030</u>

USDA Water and Sewer Revenue Bonds

On December 8, 2009, the Authority issued \$10,250,000 in revenue bond anticipation notes. The proceeds of these bonds were used for the wastewater treatment plant #1 upgrade. This note matured on June 15, 2011 and was replaced with USDA Water and Sewer Revenue Bonds in the amounts of \$9,000,000 and \$1,250,000. These revenue bonds bear interest at 4.375%.

The future payments of the note for the years ending June 30<sup>th</sup>, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 148,000	\$ 410,200	\$ 558,200
2022	155,000	403,725	558,725
2023	161,000	396,944	557,944
2024	169,000	389,900	558,900
2025	175,000	382,506	557,506
2026-3029	998,000	1,790,644	2,788,644
2031-2035	1,239,000	1,552,206	2,791,206
2036-2040	1,535,000	1,256,369	2,791,369
2041-2045	1,899,000	890,094	2,789,094
2046-2050	2,361,000	435,838	2,796,838
2051	<u>536,000</u>	<u>23,450</u>	<u>559,450</u>
	<u>\$ 9,376,000</u>	<u>\$ 7,931,876</u>	<u>\$17,307,876</u>

The Authority has been in compliance with the covenants as to rates, fees, rentals and charges in Article V and VII of the Bond Order, authorizing the issuance of the Water and Sewer Revenue Bonds, Series 2011-A and 2011-B, since its adoption in 2011.

The debt service coverage ratio calculation for the year ended June 30, 2020, is as follows:

Operating revenues	\$ 5,508,357
Operating expenses*	3,771,839
Operating income	<u>1,736,518</u>
Nonoperating revenues (expenses)**	161,859
Income available for debt service	<u>\$ 1,898,377</u>
Debt service, principal and interest paid (Revenue bond only)	\$557,369
Debt service coverage ratio	340.60%

\* Per rate covenants, this does not include the depreciation and amortization expense of \$1,618,749.

\*\* Per rate covenants, this does not include interest expense of \$418,187.

The Authority has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$10,250,000 in water and sewer system revenue bonds issued in June 2011. Proceeds from the bonds provided financing for the wastewater treatment plant #1 upgrade. The bonds are payable solely from water and sewer customer net revenues and are payable through 2051. Annual principal and interest payments on the bonds are expected to require less than 50 percent of net revenues. In the event of a default, the authority agrees to pay to the purchase, on demand, interest on any and all amounts due and owing by the Authority under the related agreement. The total principal and interest remaining to be paid on the bonds is \$17,307,875. Principal and interest paid for the current year and total customer net revenues were \$557,369 and \$1,898,377, respectively.

The Authority expensed interest totaling \$418,186 for the year ended June 30, 2020.

#### Changes in Long Term Liabilities

	Balance 6/30/2019	Increases	Decreases	Balance 6/30/2020	Current Portion
Water and Sewer System Revenue Bonds	\$ 9,517,000	\$ -	\$ 141,000	\$ 9,376,000	\$ 148,000
Direct Placement Installment Purchase	1,069,256	-	82,250	987,006	82,250
Accrued vacation pay	120,696	74,769	63,214	132,251	-
Total OPEB liability	1,679,002	331,458	-	2,010,460	-
Net pension liability (LGERS)	441,018	51,913	-	492,931	-
	<u>\$ 12,826,972</u>	<u>\$ 458,140</u>	<u>\$ 286,464</u>	<u>\$ 12,998,648</u>	<u>\$ 230,250</u>

#### 7. Net Investment in Capital Assets

Net investment in capital assets at June 30, 2020, are computed as follows:

Capital assets, net of accumulated depreciation	\$ 35,723,505
Less: construction contracts payable	83,431
capital debt	10,363,006
Capital assets, net of related debt	<u>\$ 25,277,068</u>

8. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority participates in self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Authority obtains general liability, and auto liability coverage of \$5 million per occurrence, building, personal property, municipal equipment and computer equipment coverage up to the total insured values of the property, workers' compensation coverage up to statutory limits, employee benefit liability of \$5 million per occurrence and in the aggregate, public officials coverage of \$1 million per claim and in the aggregate, government crime coverage of \$25,000 for employee dishonesty, forgery and alteration and \$5,000 for inside and outside theft. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Authority upon request. The Authority provides health insurance to its employees through Blue Cross/Blue Shield of North Carolina.

Claims have not exceeded coverage in any of the past three fiscal years. The Authority does not carry flood insurance.

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

C. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

D. The Coronavirus Pandemic Emergency

In response to the coronavirus pandemic emergency, actions were taken by the Authority in March 2020, to reduce the spread of the coronavirus disease (COVID-19) and to provide for the health and safety of customers and staff. The Authority closed its administrative office and other Authority buildings to the public. Customers are able to conduct any required business with the Authority staff by telephone or email. Additionally, payments on account may be made via mail, drop box or the website.

The Governor of North Carolina declared a State of Emergency (SOE) due to the pandemic and issued Executive Order 124 stating that all late fees for residential utility customers charged after

March 31, 2020 would be waived for the duration of the order and they could not be disconnected for nonpayment during this time. For outstanding balances, customers were to receive at least six months to pay outstanding bills. The Authority Board extended the payment term option to twelve months. In response to this, the Authority Board expanded the relief to include its commercial customers as well. In addition, the Authority Board allowed any commercial customer, whose business was closed due to the pandemic, to have their service disconnected with no minimum charge.

The Authority reinstated the late fees in August 2020 and the reconnect charges in September 2020. Customers are allowed to receive a one-time waive of the reconnect fee.

The complete future financial impact to the Authority from the pandemic cannot be estimated at this time with any reasonable accuracy.

E. Subsequent Events

Subsequent events have been reviewed through October 28, 2020, which is the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTAL FINANCIAL DATA**

**Tuckasegee Water and Sewer Authority**  
**Schedule of Changes in the Total OPEB Liability and Related Ratios**  
**June 30, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Total OPEB Liability</b>			
Service cost	\$ 85,946	\$ -	\$ 49,795
Interest	125,577	-	52,978
Changes of benefit terms	-	-	-
Differences between expected and actual experience	227,252	-	845
Changes of assumptions	(88,044)	-	(155,112)
Benefits payments	(19,273)	(17,953)	(23,063)
<b>Net change in total OPEB liability</b>	<u>331,458</u>	<u>(17,953)</u>	<u>(74,557)</u>
<b>Total OPEB liability - beginning</b>	<u>1,679,002</u>	<u>1,696,955</u>	<u>1,771,512</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 2,010,460</u></u>	<u><u>\$ 1,679,002</u></u>	<u><u>\$ 1,696,955</u></u>
<b>Covered payroll</b>	\$ 560,708	\$ 634,887	\$ 634,887
<b>Total OPEB liability as a percentage of covered payroll</b>	358.56%	264.46%	267.28%

**Notes to Schedule**

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

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

**Tuckaseegee Water and Sewer Authority**  
**Tuckaseegee Water and Sewer Authority's Proportionate Share of Net Pension Liability (Asset)**  
**Required Supplementary Information**  
**Last Seven Fiscal Years \***

**Local Government Employees' Retirement System**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Tuckaseegee's proportion of the net pension liability (asset) (%)	0.01805%	0.01859%	0.01907%	0.02012%	0.01919%	0.01989%	0.02000%
Tuckaseegee's proportion of the net pension liability (asset) (\$)	\$ 492,931	\$ 441,018	\$ 291,337	\$ 427,014	\$ 86,124	\$ (117,300)	\$ 241,077
Tuckaseegee's covered-employee payroll	\$1,545,715	\$1,427,757	\$1,393,013	\$1,377,792	\$1,262,651	\$1,219,273	\$1,191,974
Tuckaseegee's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	31.89%	30.89%	20.91%	30.99%	6.82%	( 9.62%)	20.23%
Plan fiduciary net position as a percentage of the total pension liability**	90.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

**Tuckaseegee Water and Sewer Authority  
Tuckaseegee Water and Sewer Authority's Contributions  
Required Supplementary Information  
Last Seven Fiscal Years**

**Local Government Employees' Retirement System**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 138,072	\$ 121,029	\$ 108,225	\$ 102,247	\$ 93,138	\$ 89,270	\$ 86,203
Contributions in relation to the contractually required	138,072	121,029	108,225	102,247	93,138	89,270	86,203
Contribution deficiency (excess)	<u>\$ -</u>						
Tuckaseegee's covered-employee payroll	\$1,529,040	\$1,545,715	\$1,427,757	\$1,393,013	\$1,377,792	\$1,262,651	\$1,219,273
Contributions as a percentage of covered-employee payroll	9.03%	7.83%	7.58%	7.34%	6.76%	7.07%	7.07%

**INDIVIDUAL FUND AND OTHER SCHEDULES**

**TUCKASEIGEE WATER AND SEWER AUTHORITY**

**Schedule of Operating Expenses  
For the Year Ended June 30, 2020**

	<u>Administration</u>	<u>Water</u>	<u>Maintenance &amp; Distribution</u>	<u>Sewer</u>	<u>Total</u>
Salaries and wages	\$ 398,582	\$ 269,934	\$ 493,385	\$ 426,086	\$ 1,587,987
Board member expense	32,001	-	-	-	32,001
Payroll tax	32,426	20,245	35,957	32,325	120,953
Retirement	55,110	40,069	73,232	63,447	231,858
Hospitalization	71,578	64,573	122,127	101,679	359,957
Other postemployment benefits	173,086	-	-	-	173,086
Worker's compensation insurance	816	6,527	10,062	9,790	27,195
Unemployment reimbursement	-	-	240	-	240
Accounting	12,500	-	-	-	12,500
Legal	16,038	-	-	-	16,038
Engineering	-	-	-	-	-
Other professional services	10,656	-	-	-	10,656
Supplies	12,283	2,099	6,964	2,408	23,754
Uniforms	-	4,697	7,324	5,655	17,676
Repairs supplies	-	2,821	103,387	-	106,208
Hydrant upgrade	-	-	4,006	-	4,006
Vehicle supplies & repairs	-	1,898	5,763	649	8,310
Vehicles tags & tax	36	155	2,871	192	3,254
Fuel and oil	189	2,640	18,041	34,028	54,898
Tires	-	414	2,871	1,009	4,294
Lab services and supplies	-	92,716	-	96,857	189,573
Travel and transportation	-	-	-	-	-
Communication	6,058	2,721	3,336	4,314	16,429
Postage	16,666	40	30	66	16,802
Utilities	11,058	88,288	39,402	204,425	343,173
Printing and binding	7,399	-	-	-	7,399
Equipment tools	-	655	4,981	553	6,189
Repairs and maintenance	-	9,900	36,172	-	46,072
Equipment maintenance	-	62	-	1,552	1,614
Equipment repairs	-	-	3,282	15,666	18,948
Equipment rent	-	-	636	-	636
Building maintenance	-	3,453	1,218	1,845	6,516
Advertising	3,606	-	-	-	3,606
Data processing	51,802	1,045	-	1,069	53,916
Tech provider	29,600	-	-	-	29,600
Cleaning	583	-	-	-	583
Janitorial supplies	-	550	1,912	1,023	3,485
Training	499	1,693	914	280	3,386
Other services	-	4,220	-	90,119	94,339
Educational assistance	766	-	-	-	766
Service contracts	6,516	-	833	-	7,349
Insurance and bonding	11,133	11,533	22,108	24,164	68,938
Dues and subscriptions	1,926	2,735	4,900	9,455	19,016
Community outreach	-	-	-	-	-
Bad debts written off	30,000	-	-	-	30,000
Economic development	-	-	-	-	-
Miscellaneous	2,945	295	5,095	298	8,633
<b>Total operating expenses</b>	<u><u>\$ 995,858</u></u>	<u><u>\$ 635,978</u></u>	<u><u>\$ 1,011,049</u></u>	<u><u>\$ 1,128,954</u></u>	<u><u>\$ 3,771,839</u></u>

# TUCKASEIGEE WATER AND SEWER AUTHORITY

## Authority Operating Fund Schedule of Revenues and Expenses - Budget and Actual (Non-GAAP) For the Year Ended June 30, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Operating revenue:</b>			
Water:			
Basic service	\$ 1,740,530	\$ 1,610,575	\$ (129,955)
System development fee	183,507	209,684	26,177
Reconnects	32,650	18,900	(13,750)
Tap fees	8,000	7,440	(560)
Sewer:			
Basic service	2,534,836	2,454,426	(80,410)
System development fee	217,311	383,505	166,194
Tap fees	9,000	3,200	(5,800)
Other:			
Late fees	38,000	45,000	7,000
Miscellaneous	53,876	55,802	1,926
System improvement charges	712,381	661,398	(50,983)
System availability charges	28,000	21,205	(6,795)
Special charges	10,000	9,222	(778)
Operating grants	28,000	28,000	-
Total operating revenue	<u>5,596,091</u>	<u>5,508,357</u>	<u>(87,734)</u>
<b>Nonoperating revenue:</b>			
Proceeds from sale of assets	-	-	-
Insurance recovery proceeds	-	8,326	8,326
Interest earned	273,212	201,589	(71,623)
Total nonoperating revenue	<u>273,212</u>	<u>209,915</u>	<u>(63,297)</u>
<b>Total revenue</b>	<u>\$ 5,869,303</u>	<u>\$ 5,718,272</u>	<u>\$ (151,031)</u>

# TUCKASEIGEE WATER AND SEWER AUTHORITY

## Authority Operating Fund Schedule of Revenues and Expenses - Budget and Actual (Non-GAAP) For the Year Ended June 30, 2020

	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Administration:</b>			
Salaries and wages	\$ 410,151	\$ 398,582	\$ 11,569
Board member expense	32,000	32,001	(1)
Payroll tax	34,000	32,426	1,574
Retirement	38,000	32,818	5,182
Hospitalization	74,100	71,578	2,522
Other postemployment benefits	35,000	30,623	4,377
Worker's compensation insurance	816	816	-
Accounting	12,500	12,500	-
Legal	18,000	16,038	1,962
Other professional services	13,000	10,656	2,344
Supplies	13,000	12,283	717
Vehicle repairs & supplies	379	-	379
Fuel & oil	650	189	461
Vehicle tags & tax	50	36	14
Travel and transportation	800	-	800
Communication	6,100	6,058	42
Postage	19,000	16,666	2,334
Utilities	12,000	11,058	942
Printing and binding	7,500	7,399	101
Advertising	3,566	3,606	(40)
Data processing	52,275	51,802	473
Tech provider	32,100	29,600	2,500
Cleaning	1,100	583	517
Training	1,300	499	801
Educational assistance	1,700	766	934
Service contracts	6,555	6,516	39
Insurance and bonding	11,133	11,133	-
Dues and subscriptions	2,800	1,926	874
Community outreach	2,000	-	2,000
Miscellaneous	9,000	2,945	6,055
Capital outlay	15,255	15,255	-
Economic Development	-	-	-
Debt service	641,956	641,437	519
Bad debts written off	30,000	30,000	-
Contingency	20,150	-	20,150
	<b>\$1,557,936</b>	<b>\$1,487,795</b>	<b>\$ 70,141</b>
Total administrative expenses	<b>\$1,557,936</b>	<b>\$1,487,795</b>	<b>\$ 70,141</b>

# TUCKASEIGEE WATER AND SEWER AUTHORITY

## Authority Operating Fund Schedule of Revenues and Expenses - Budget and Actual (Non-GAAP) For the Year Ended June 30, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Water:</b>			
Salaries and wages	\$ 300,000	\$ 269,934	\$ 30,066
Payroll tax	25,000	20,245	4,755
Retirement	29,500	23,861	5,639
Hospitalization	70,800	64,573	6,227
Worker's compensation insurance	6,527	6,527	-
Supplies	3,300	2,099	1,201
Uniforms	5,800	4,697	1,103
Repairs supplies	4,000	2,821	1,179
Fuel and oil	3,500	2,640	860
Tires	500	414	86
Vehicle tags & tax	200	155	45
Lab services and supplies	104,000	92,716	11,284
Travel and transportation	-	-	-
Communication	3,000	2,721	279
Postage	150	40	110
Utilities	95,000	88,288	6,712
Equipment tools	1,000	655	345
Repairs and maintenance	10,000	9,900	100
Equipment maintenance	1,000	62	938
Vehicle repairs	2,000	1,898	102
Building maintenance	4,000	3,453	547
Data processing	2,500	1,045	1,455
Janitorial supplies	600	550	50
Training	3,000	1,693	1,307
Other services	6,000	4,220	1,780
Insurance and bonding	11,533	11,533	-
Dues and subscriptions	3,500	2,735	765
Miscellaneous	4,000	295	3,705
Capital outlay	54,640	42,863	11,777
<b>Total water expenses</b>	<u>\$ 755,050</u>	<u>\$ 662,633</u>	<u>\$ 92,417</u>

# TUCKASEIGEE WATER AND SEWER AUTHORITY

## Authority Operating Fund Schedule of Revenues and Expenses - Budget and Actual (Non-GAAP) For the Year Ended June 30, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Maintenance and Distribution:</b>			
Salaries and wages	\$ 521,000	\$ 493,385	\$ 27,615
Payroll tax	42,000	35,957	6,043
Retirement	49,000	43,610	5,390
Hospitalization	129,000	122,127	6,873
Worker's compensation insurance	10,062	10,062	-
Unemployment reimbursement	500	240	260
Supplies	8,200	6,964	1,236
Uniforms	8,200	7,324	876
Repairs supplies	111,838	103,387	8,451
Hydrant upgrade	8,000	4,006	3,994
Vehicle supplies	9,000	5,763	3,237
Fuel and oil	22,000	18,041	3,959
Tires	3,000	2,871	129
Vehicle tags & tax	3,000	2,871	129
Travel and transportation	1,200	-	1,200
Communication	5,200	3,336	1,864
Postage	150	30	120
Utilities	41,300	39,402	1,898
Equipment tools	5,500	4,981	519
Repairs and maintenance	51,000	36,172	14,828
Equipment repairs	9,500	3,282	6,218
Building maintenance	9,000	1,218	7,782
Data processing	1,000	-	1,000
Janitorial supplies	2,000	1,912	88
Training	1,700	914	786
Equipment rent	1,200	636	564
Service contracts	6,400	833	5,567
Insurance and bonding	22,108	22,108	-
Dues and subscriptions	5,100	4,900	200
Miscellaneous	7,000	5,095	1,905
Capital outlay	75,992	75,916	76
	<u>\$1,170,150</u>	<u>\$1,057,343</u>	<u>\$ 112,807</u>
Total maintenance and distribution expenses			

# TUCKASEIGEE WATER AND SEWER AUTHORITY

## Authority Operating Fund Schedule of Revenues and Expenses - Budget and Actual (Non-GAAP) For the Year Ended June 30, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Sewer:</b>			
Salaries and wages	\$ 448,800	\$ 426,086	\$ 22,714
Payroll tax	37,200	32,325	4,875
Retirement	43,300	37,783	5,517
Hospitalization	105,100	101,679	3,421
Worker's compensation insurance	10,343	9,790	553
Engineering	-	-	-
Supplies	3,821	2,408	1,413
Uniforms	6,950	5,655	1,295
Fuel and oil	46,750	34,028	12,722
Tires	1,550	1,009	541
Vehicle tags & tax	341	192	149
Lab services and supplies	109,128	96,857	12,271
Travel and transportation	-	-	-
Communication	4,704	4,314	390
Postage	150	66	84
Utilities	204,909	204,425	484
Equipment tools	2,750	553	2,197
Equipment maintenance	3,350	1,552	1,798
Vehicle repairs	1,750	649	1,101
Equipment repairs	24,478	15,666	8,812
Building maintenance	3,157	1,845	1,312
Data processing	2,000	1,069	931
Janitorial supplies	1,559	1,023	536
Training	680	280	400
Other services	89,400	90,119	(719)
Equipment rent	800	-	800
Insurance and bonding	26,987	24,164	2,823
Dues and subscriptions	9,685	9,455	230
Miscellaneous	1,650	298	1,352
Capital outlay	89,418	75,211	14,207
	<u>\$ 1,280,710</u>	<u>\$ 1,178,501</u>	<u>\$ 102,209</u>
Total sewer expenses			
	<u>\$ 4,763,846</u>	<u>\$ 4,386,272</u>	<u>\$ 377,574</u>
Total expenses			

# TUCKASEIGEE WATER AND SEWER AUTHORITY

## Authority Operating Fund Schedule of Revenues and Expenses - Budget and Actual (Non-GAAP) For the Year Ended June 30, 2020

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Net operating income	\$ 1,105,457	\$ 1,332,000	\$ 226,543
Other financing sources (uses):			
Increase in net position	(1,105,457)	-	1,105,457
Total other financing sources (uses)	(1,105,457)	-	1,105,457
Revenues over expenses	<u>\$ -</u>	<u>\$ 1,332,000</u>	<u>\$ 1,332,000</u>

### Reconciliation from budgetary basis (modified accrual basis) to full accrual net income (2020):

Revenues over expenses	\$ 1,332,000
Reconciling items:	
Depreciation and amortization	(1,618,749)
Acquisition of property and equipment	209,245
Contributed property	74,186
Disposal of property and equipment	(48,056)
Cumulative costs of parked projects	(242,851)
Capital contributions to capital improvements fund	391,262
Decrease in deferred outflows of resources-pensions	(44,156)
Decrease in net pension liability	(51,913)
Decrease in deferred inflows of resources- pensions	2,283
Decrease in deferred outflows of resources-OPEB	189,151
Decrease in OPEB liability	(331,458)
Increase in deferred inflows of resources- pensions	(156)
Debt service principal payments	<u>223,250</u>
Increase (decrease) in net position	<u>\$ 84,038</u>

**Tuckasegee Water and Sewer Authority**  
**Capital Improvements Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP)**  
**From Inception and for the Year Ended June 30, 2020**

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
<b>Revenues</b>					
State Grant Revenues	\$ 746,601	\$ 63,247	\$ 391,262	\$ 454,509	\$ (292,092)
Federal Grant Revenues	1,745,000	-	-	-	(1,745,000)
Local Grant Revenues	-	10,000	-	10,000	10,000
Other Grant Revenues	461,175	-	-	-	(461,175)
NCDOT Reimbursement	410,473	53,539	256,982	310,521	(99,952)
Total revenues	<u>3,363,249</u>	<u>126,786</u>	<u>648,244</u>	<u>775,030</u>	<u>(2,588,219)</u>
<b>Expenditures</b>					
Building-Main Office	40,000	-	-	-	40,000
Clearwell WTP	1,592,526	19,150	-	19,150	1,573,376
Cowan Valley Water Consolidation	329,501	18,550	11,550	30,100	299,401
Dillsboro Bridge B-5905 NCDOT	410,473	74,190	242,840	317,030	93,443
Horsepasture River-WWTP	8,693,200	432,794	60,414	493,208	8,199,992
Jackson Paper Lift Station	2,077,745	250,651	29,995	280,646	1,797,099
Little Savannah Growth - Sewer-Advanced Planning	907,008	52,930	47,626	100,556	806,452
Little Savannah Growth - Water	432,311	29,286	34,610	63,896	368,415
Old Cullowhee Bridge Water Line Replacement	78,465	4,040	73,395	77,435	1,030
Rhodes Cove Water	108,675	-	6,021	6,021	102,654
Savannah Drive Sewer Main Replacement	200,000	2,765	-	2,765	197,235
Sewer Asset Inventory - Phase I	75,923	35,791	41,178	76,969	(1,046)
Sewer Asset Inventory - Phase II	72,826	1,076	7,821	8,897	63,929
Valhalla Apartments Water System Study	25,000	24,975	-	24,975	25
Valhalla Water System Consolidation	509,985	61,243	335,889	397,132	112,853
Water Asset Inventory - Phase I	76,353	25,015	52,774	77,789	(1,436)
Water Asset Inventory - Phase II	72,496	1,071	27,715	28,786	43,710
WCU Water Merger Study	50,750	375	28,250	28,625	22,125
WWTP#2-Rehabilitation Phase II	2,776,600	148,126	29,829	177,955	2,598,645
WWTP#2-Rehabilitation Phase II	4,687,206	-	172,490	172,490	4,514,716
WWTP#2-Plant Upgrade-Advanced Planning	30,000	27,408	-	27,408	2,592
Parked Projects	-	242,851	-	242,851	(242,851)
Total expenditures	<u>23,247,043</u>	<u>1,452,287</u>	<u>1,202,397</u>	<u>2,654,684</u>	<u>20,592,359</u>
<b>Revenue over (under) expenditures</b>	<b>(19,883,794)</b>	<b>(1,325,501)</b>	<b>(554,153)</b>	<b>(1,879,654)</b>	<b>18,004,140</b>
<b>Other Financing Sources (Uses):</b>					
Loan proceeds	13,963,325	-	-	-	13,963,325
Cumulative costs of parked projects - expensed in current year	-	-	(242,851)	(242,851)	242,851
Transfers from (to) operating fund/capital reserves	5,920,469	2,606,652	1,753,546	4,360,198	1,560,271
Total other sources (uses)	<u>19,883,794</u>	<u>2,606,652</u>	<u>1,510,695</u>	<u>4,117,347</u>	<u>15,766,447</u>
<b>Revenues and other financing sources over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 1,281,151</u>	<u>\$ 956,542</u>	<u>\$ 2,237,693</u>	<u>\$ 2,237,693</u>

## **OTHER REPORT**

# BURLESON & EARLEY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S 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*

To the Board of Directors  
Tuckaseegee Water and Sewer Authority  
Sylva, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and major fund of the Tuckaseegee Water and Sewer Authority, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Tuckaseegee Water and Sewer Authority's basic financial statements, and have issued our report thereon dated October 28, 2020.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Tuckaseegee Water and Sewer Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tuckaseegee Water and Sewer Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Tuckaseegee Water and Sewer Authority'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*Burleson & Earley, P.A.*

Certified Public Accountants

October 28, 2020