

**FIRST CRAVEN SANITARY DISTRICT  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**WILSON, JONES & GRIFFIN, PA  
CERTIFIED PUBLIC ACCOUNTANTS**

**First Craven Sanitary District**  
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**R. LEWIS JONES, C.P.A.**

**ROBERT T. GRIFFIN, JR., C.P.A.**

## **Independent Auditor's Report**

Board of Commissioners  
First Craven Sanitary District  
Bridgeton, NC

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of First Craven Sanitary District (a governmental agency) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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

## **Opinions**

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of First Craven Sanitary District as of June 30, 2018, and the respective changes in financial position and cash flows, where appropriate, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5-8 and the Local Government Employees' Retirement System's Schedules of Proportionate Share of Net Pension Liability (Asset) and Contributions on pages 27 and 28, 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 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 basic financial statements of First Craven Sanitary District taken as a whole. The budgetary comparison schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary schedules 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 September 28, 2018 on our consideration of First Craven Sanitary District'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 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 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 First Craven Sanitary District's internal control over financial reporting and compliance.

*Wilson, Jones & Griffin, P.A.*

Wilson, Jones & Griffin, P.A.

September 28, 2018

**First Craven Sanitary District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended June 30, 2018**

As management of the First Craven Sanitary District, we offer readers of the First Craven Sanitary District's financial statements this narrative overview and analysis of the financial activities of the First Craven Sanitary District for the fiscal years ended June 30, 2018 and 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the District's financial statements, which follow this narrative.

**Financial Highlights**

- The assets of the First Craven Sanitary District exceeded its liabilities at the close of the fiscal year by \$2,908,597.
- The district's total net position increased by \$190,033.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the First Craven Sanitary District's basic financial statements. The district's basic financial statements consist of two components: 1) fund 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 First Craven Sanitary District.

**Basic Financial Statements**

The first three statements are Fund Financial Statements. These statements focus on the activities of the district.

The next section of the basic financial statements is the notes. The notes to financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the proprietary funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

**Fund Financial Statements**

The fund financial statements provide a detailed look at the district's activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The First Craven Sanitary District, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the district's budget ordinance. The District maintains one fund: a proprietary fund.

**Proprietary Funds** – The First Craven Sanitary district has one kind of proprietary fund. The District uses an enterprise fund to account for its operations.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the proprietary fund financial statements. The notes to the financial statements are on pages 15-25 of this report.

**First Craven Sanitary District**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Fiscal Year Ended June 30, 2018**

**Other Information** - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information. Supplementary information can be found beginning on page 27 of this report.

**Financial Analysis**

Figure 1:

First Craven Sanitary District's Net Position

	2018	2017
Current and other assets	\$ 1,669,192	\$ 1,647,400
Capital assets	2,734,698	2,686,493
Total assets	4,403,890	4,333,893
Contributions to pension plan	15,248	14,182
Pension deferrals	22,561	39,960
Total deferred outlaw of resources	37,809	58,142
Current liabilities	282,746	283,260
Long-term liabilities outstanding	1,212,547	1,350,094
Total liabilities	1,495,293	1,633,354
Pension deferrals	3,343	5,651
Total deferred inflow of resources	3,343	5,651
Net position:		
Net Investment in capital assets	1,384,604	1,201,852
Restricted	183,711	184,243
Unrestricted	1,374,748	1,366,935
Total net position	\$ 2,943,063	\$ 2,753,030

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the First Craven Sanitary District exceeded liabilities by \$2,908,597 as of June 30, 2018. The District's net position increased by \$190,033 for the fiscal year ended June 30, 2018. However, about half (47%) reflects the District's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The First Craven Sanitary District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital asset cannot be used to liquidate these liabilities. Of the remaining balance of \$1,558,459, 12% (\$183,711) is restricted by the board for future expansion, 5% (\$72,292) is customer deposits restricted for the services for which the monies was collected, and 83% (\$1,374,748) is unrestricted.

**First Craven Sanitary District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2018**

Several particular aspects of the First Craven Sanitary District's financial operations positively influenced the total unrestricted governmental net position:

- Bills
- Increase in revenue due to high collection rate and selling more water compared to prior years

Figure 2:

First Craven Sanitary District Changes in Net Position

	2018	2017
Revenues:		
Charges for services	\$ 951,055	\$ 874,214
Other revenues	63,033	67,015
Total revenues	1,014,088	941,229
Expenses:		
Operating expenses	742,548	735,170
Interest on long-term debt	81,507	87,892
Total expenses	824,055	823,062
Increase (decrease) in net position	190,033	118,167
Total Net Position:		
Beginning of year	2,753,030	2,634,863
End of year	\$ 2,943,063	\$ 2,753,030

**Capital Asset and Debt Administration**

**Capital assets.** The First Craven Sanitary District's investment in capital assets for its activities as of June 30, 2018 totals \$2,734,698 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, and vehicles. There were no major capital asset transactions during this year.

Figure 3:

First Craven Sanitary District Changes in Net Position

	2018	2017
Land	\$ 34,035	\$ 34,035
Operating plant	2,645,021	2,603,013
Equipment	55,641	49,445
Total	\$ 2,734,697	\$ 2,686,493

Additional information on the District's capital assets can be found in note 3 of the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2018, the First Craven Sanitary District had total debt outstanding of \$1,350,094. This debt is backed by the full faith and credit of the District.



**First Craven Sanitary District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2018**

Figure 4:

First Craven Sanitary District's Outstanding Debt

	2018	2017
Bonds Payable	\$ 1,300,000	\$ 1,409,500
Note Payable	50,094	75,142
Contract Payable	-	-
Total Outstanding Debt	\$ 1,350,094	\$ 1,484,642

The First Craven Sanitary District total debt decreased by \$134,548 (8%) during the past fiscal year, due to the principal payments made toward the debt.

Additional information regarding the First Craven Sanitary District's long-term debt can be found in note 6 of the Basic Financial Statements.

**Budget to Actual Results for the Fiscal Year Ending June 30, 2018**

Water revenue was slightly higher than budgeted due to a higher collection rate than expected and selling more water compared to prior years.

General operating expenses, as well as various other expenses, were slightly lower than budgeted.

**Budget Highlights for the Fiscal Year Ending June 30, 2019**

Overall revenue is expected to remain fairly constant.

General operating expenses as well as various other expenses are expected to remain constant as well.

**Requests for Information**

This report is designed to provide an overview of the First Craven Sanitary District's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

**First Craven Sanitary District  
Edward Riggs, Jr. Manager  
P.O. Box 608  
Bridgeton, NC 28509  
Phone: (252) 633-6500  
Fax: (252)633-6824**

## **BASIC FINANCIAL STATEMENTS**

**First Craven Sanitary District**  
**STATEMENT OF NET POSITION**  
**As of June 30, 2018**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$	1,304,234
Accounts receivable		89,133
Inventory		86,677
<b>Total Current Assets</b>		1,480,044

**Noncurrent Assets**

Cash – restricted		189,148
Capital Assets		
Land and other non-depreciable assets		34,035
Other capital assets, net of depreciation		2,700,662
<b>Total Capital Assets</b>		2,734,697
<b>Total Noncurrent Assets</b>		2,923,845

**TOTAL ASSETS**

4,403,889

**DEFERRED OUTFLOWS OF RESOURCES**

Contributions to pension plan in current fiscal year		15,248
Pension deferrals		22,561
<b>Total Deferred Outflows</b>		37,809

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

**First Craven Sanitary District  
STATEMENT OF NET POSITION  
As of June 30, 2018**

**LIABILITIES**

**Current Liabilities**

Accounts payable	17,231
Other payables	13,663
Deposits and advances	72,292
Pension liability	42,012
Current portion of long-term debt	137,547
<b>Total Current Liabilities</b>	<b>282,745</b>

**Noncurrent Liabilities**

Note payable	25,047
Bonds payable	1,187,500
<b>Total Noncurrent Liabilities</b>	<b>1,212,547</b>

<b>TOTAL LIABILITIES</b>	<b>1,495,292</b>
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**DEFERRED INFLOW OF RESOURCES**

Pension deferrals	3,343
<b>Total Deferred Outflows</b>	<b>3,343</b>

**NET POSITION**

Invested in capital assets, net of related debt	1,384,604
Restricted	189,148
Unrestricted	1,369,311
	<b>1,369,311</b>

<b>TOTAL NET POSITION</b>	<b>\$ 2,943,063</b>
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The notes to the financial statements are an integral part of this statement

**First Craven Sanitary District**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**For the Fiscal Year Ended June 30, 2018**

<b>OPERATING REVENUES</b>		
Charges for services	\$	951,055
Water tap-on fees		17,225
Reconnect fees		13,440
Application fees		10,500
Impact fees		-
Other operating revenues		<u>13,484</u>
<b>Total Operating Revenues</b>		<u>1,005,704</u>
<b>OPERATING EXPENSES</b>		
Water treatment and distribution		227,661
Personnel and related costs		251,007
General and administrative costs		78,593
Depreciation		<u>185,287</u>
<b>Total Operating Expenses</b>		<u>742,548</u>
<b>Operating Income</b>		<u>263,156</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Investment earnings		8,384
Interest expense		<u>(81,507)</u>
<b>Total Non-operating Revenues (Expenses)</b>		<u>(73,123)</u>
<b>CHANGE IN NET POSITION</b>		<u>190,033</u>
<b>TOTAL NET POSITION</b>		
Beginning of year		<u>2,753,030</u>
End of year	\$	<u>2,943,063</u>

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

**First Craven Sanitary District**  
**STATEMENT OF CASH FLOWS**  
**For the Fiscal Year Ended June 30, 2018**

<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 1,023,433
Cash paid for goods and services	<u>(574,829)</u>
<b>Net Cash Provided By Operating Activities</b>	<u>448,604</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(233,492)
Interest paid on bond maturities	(81,507)
Principle payments on bond maturities	<u>(134,547)</u>
<b>Net Cash Used In Capital and Related Financing Activities</b>	<u>(449,546)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest from investments	<u>8,384</u>
<b>Net Cash Provided By Investing Activities</b>	<u>8,384</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	7,442
<b>CASH AND CASH EQUIVALENTS</b>	
Beginning of year	<u>1,485,940</u>
End of year	<u>\$ 1,493,382</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income (loss)	\$ 263,156
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Depreciation expense	185,287
(Increase) decrease in receivables and prepaid expenses	(2,605)
(Increase) decrease in inventory	(11,745)
(Increase) decrease in deferred outflows of resources	21,400
(Increase) decrease in pension asset	(1,066)
Increase (decrease) in payables and accrued expenses	(3,515)
Increase (decrease) in deferred inflows of resources	<u>(2,308)</u>
<b>Net Cash Provided by (Used In) Operating Activities</b>	<u>\$ 448,604</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**First Craven Sanitary District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying policies of First Craven Sanitary District (District) conform to generally accepted accounting principles (GAAP) as applicable to governments. The following is a summary of the more significant accounting policies:

**Reporting Entity**

The First Craven Sanitary District (the District) is a political subdivision of the State of North Carolina created under General Statute 130A of the State of North Carolina. The District provides water services to individuals and businesses in Bridgeton, North Carolina, and the adjacent area. The District is governed by an elected Board of five commissioners.

**Basis of Presentation**

The statement of net position and the statement of revenues, expenses and changes in net position display information about the District. These statements include the financial activities of the District. The District operates as a single-purpose government and reports all activities as one proprietary fund.

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

**Measurement Focus and Basis of Accounting**

In accordance with North Carolina General Statutes, the proprietary fund of the District is maintained during the year using the modified accrual basis of accounting.

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

**Budgetary data**

The District's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the District and is presented on the modified accrual basis of accounting. The modified accrual basis is used in preparing the budget so that the transactions recorded in the accounting system during the year will be compatible.

Expenditures may not legally exceed appropriations at the function level for all budgeted funds. The budget presented in these financial statements represents the budget of the District.



**First Craven Sanitary District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2018**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources and Equity**

Deposits and Investments

All deposits of the District are made in a local bank, whose accounts are FDIC insured. Also, the District may establish time deposit accounts such as NOW and Super NOW accounts, money market accounts, and certificates of deposit.

The District's investments with a maturity of more than one year at acquisition date and non-money market investments are reported at fair value as determined by quoted market prices.

Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents.

Restricted Cash

Restricted cash is cash deposits that have been set aside by the District for future expansion. All restricted cash is held in separate accounts. Monies set aside for future expansion totaled \$116,856 for the fiscal year ended June 30, 2018.

Customer deposits held by the District before any services are supplied are restricted to the service for which the deposit was collected. Customer deposits totaled \$72,292 for the fiscal year ended June 30, 2018.

Accounts Receivable

The District grants credit to customers, substantially all of who are residents of the Bridgeton, North Carolina area. The risk of loss on the accounts receivables is the balance due at time of default. It is the practice of the District to charge operations for specific accounts, as they are deemed uncollectible.

Inventory

The inventories of the District are valued at cost (first-in, first-out), which approximates market. The District's inventories consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

Prepaid Items

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost. Donated capital assets are recorded at their estimated fair value at the date of donation.

**First Craven Sanitary District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2018**

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Operating plant	20-75 years
Equipment	5-10 years
Other improvements	10 years

Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The district has one item that meets this criterion, contributions to pension plan in current fiscal year.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District has one item that meets this criterion, deferrals of pension expense that result from the implementation of GASB Statement 68.

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, 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 are reported as deferred charges and amortized over the term of the related debt.

Compensated Absences

The vacation policy of the District provides for the accumulation of up to twenty days or 160 hours earned vacation leave annually. Unused vacation leave in the amount of up to thirty days or 240 hours may be carried forward to the following year. Accrued vacation leave in excess of 240 hours will be converted to sick leave at the beginning of each calendar year. An expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The District has assumed a first-in, first-out method of using accumulated compensated time. The liability for compensated absences is immaterial and has not been recorded.

Accrued vacation will be paid out upon the Employee's voluntary resignation, if the Employee gives proper notice as outlined in the District's Personnel Policy. In the event of involuntary termination of employment for a violation of any policy or procedure set forth, the separating Employee will not be paid for any accrued and unused vacation leave.

The District's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the District does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

**First Craven Sanitary District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2018**

Net Position

Net position is classified as invested in capital assets, net of related debt; 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. Restricted net position will be used before unrestricted net position when the restrictions have been met. In the event expenditure is incurred for both restricted and unrestricted amounts, the restricted amounts will be considered to be spent.

Pensions

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

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – DEPOSITS**

All deposits of the District are either insured or collateralized by using one of two methods. Under the Dedicated method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the District's agents in their name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the District, these deposits are considered to be held by the District's agents in their name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the District or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the District under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The District has no policy regarding custodial credit risk for deposits.

**First Craven Sanitary District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2018**

At June 30, 2018, the District's deposits had a carrying amount of \$1,493,382, and a bank balance of \$1,500,615. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

At June 30, 2018, the District had \$200 cash on hand

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the District at June 30, 2018 was as follows:

	Beginning balances	Increases	Decreases	Ending Balances
<b>Capital assets not being depreciated:</b>				
Land	\$ 34,035	\$ 0	\$ 0	\$ 34,035
Total capital assets not being depreciated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>34,035</u>	<u>0</u>	<u>0</u>	<u>34,035</u>
<b>Capital assets being depreciated:</b>				
Operating plant	5,904,025	\$ 208,353	\$ 0	6,112,377
Equipment	245,762	25,139	0	270,901
Other improvements	3,387	0	0	3,387
Total capital assets being depreciated	<u>6,153,174</u>	<u>233,492</u>	<u>0</u>	<u>6,386,665</u>
<b>Less accumulated depreciation for:</b>				
Operating plant	3,301,012	\$ 166,344	\$ 0	3,467,356
Equipment	196,317	18,943	0	215,260
Other improvements	3,387	0	0	3,387
Total accumulated depreciation	<u>3,500,716</u>	<u>\$ 185,287</u>	<u>\$ 0</u>	<u>3,686,003</u>
Total capital assets being depreciated, net	<u>2,652,458</u>			<u>2,700,662</u>
<b>Total capital assets, net</b>	<u>\$ 2,686,493</u>			<u>\$ 2,734,697</u>

**NOTE 4 – PENSION PLAN OBLIGATIONS**

**Local Governmental Employees' Retirement System**

*Plan Description.* The District is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the 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).

**First Craven Sanitary District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2018**

*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.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. First Craven Sanitary District employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The District's contractually required contribution rate for the year ended June 30, 2018, was 8% of compensation for law enforcement officers and 7.20% for general employees and firefighters, 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 District were \$15,248 for the years ended June 30, 2018.

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

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

At June 30, 2018, the District reported a liability of \$42,012 for its proportionate share of the net pension liability. The net pension asset was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31,

**First Craven Sanitary District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2018**

2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The District's proportion of the net pension asset was based on a projection of the District's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the District's proportion was 0.0000275%, which was a decrease of 0.000013% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the District recognized pension expense of \$14,163. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,420	\$ 1,189
Changes of assumptions	6,000	0
Net difference between projected and actual earnings on pension plan investments	10,201	0
Changes in proportion and differences between District contributions and proportionate share of contributions	3,940	2,154
District contributions subsequent to the measurement date	15,248	0
Total	\$ 37,809	\$ 3,343

\$37,809 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2019.

Future Amortization:	
Year Ended June 30,	
2019	2,225
2020	12,727
2021	7,307
2022	(3,041)
	\$ 19,218

*Actuarial Assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 3.0 percent Salary increases 4.25 to 8.55 percent, including inflation and productivity factor  
Investment rate of return 7.20 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.

**First Craven Sanitary District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2018**

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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, 2018 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%	2.5%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation	6.0%	3.4%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 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 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2015. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

*Discount rate.* The discount rate used to measure the total pension liability was 7.20%. 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

**First Craven Sanitary District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2018**

members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the District's proportionate share of the net pension asset to changes in the discount rate.* The following presents the District's proportionate share of the net pension asset calculated using the discount rate of 7.20 percent, as well as what the District's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	<b>1% Decrease (6.20%)</b>	<b>Discount rate (7.20%)</b>	<b>1% Increase (8.20%)</b>
Decrease proportionate share of the net pension liability (asset)	\$ 126,122	\$ 42,012	\$ (28,193)

*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.

**Supplemental Retirement Income Plan (401-K)**

*Plan Description:* First Craven Sanitary District participates in the Supplement Retirement Income Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The plan provides retirement benefits to all employees of the District who are employed at least half time. Article 5 of the G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The District made contributions during the fiscal year ended June 30, 2018 in the amount of \$3,222. Employees made voluntary contributions during the fiscal years June 30, 2018 of \$5,684.

*Funding Policy:* The Supplemental Retirement Income Plan is provided through the Local Government Employees' Retirement System. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. All covered employees may make voluntary contributions to the plan.

**NOTE 5 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District obtains general liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and automobile liability coverage of \$1 million each accident. The district also carries directors and officers liability coverage of \$1 million per claim. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The District does not carry flood insurance.



**First Craven Sanitary District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2018**

In accordance with G.S. 159-29, the District's employees that have access to \$100 or more at any given time of the District's funds are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$50,000, and the tax collector is individually bonded for \$10,000.

**NOTE 6 – LONG TERM OBLIGATIONS**

**General Obligation Bonds Payable**

General obligation bonds consist of the following individual issues outstanding at June 30, 2018:

\$1,250,000 1982 water bonds due in increasing annual installments through June 2021; interest at 5.00%.	\$	147,000
\$1,900,000 1996 water bonds due in increasing annual installments through June 2034; interest at 5.75%.		<u>1,153,000</u>
Total		1,300,000
Less: Current Portion		<u>(112,500)</u>
Long-term Bonds Payable	\$	<u><u>1,187,500</u></u>

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2019	112,500	73,648
2020	116,500	67,569
2021-2025	405,000	256,875
2026-2030	370,000	149,925
2031-2034	296,000	42,550
Total	\$ <u><u>1,300,000</u></u>	\$ <u><u>590,567</u></u>

**Note Payable**

Note Payable consists of the following individual issues outstanding at June 30, 2018:

Installment note payable, annual payments of \$25,047 plus semi-annual interest payments through May 2020; interest at 2.60%. Collateralized by the water system	\$	<u>50,094</u>
Less: Current Portion		<u>(25,047)</u>
Long-term Note Payable	\$	<u><u>25,047</u></u>

Annual debt service requirements to maturity are as follows:

**First Craven Sanitary District**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2018**

Year Ending June 30	Principal	Interest
2019	25,047	1,302
2020	25,048	649
Total	\$ <u>75,142</u>	\$ <u>3,905</u>

Debt activity for the District at June 30, 2018 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Current Portion of Balance
Bonds payable	\$ 1,409,500	\$ 0	\$ 109,500	\$ 1,300,000	\$ 112,500
Note payable	75,141	0	25,047	50,094	25,047
Tower contract	0	0	0	0	0
Totals	\$ <u>1,484,641</u>	\$ <u>0</u>	\$ <u>134,547</u>	\$ <u>1,350,094</u>	\$ <u>137,547</u>

**NOTE 7 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 28, 2018, the date which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**First Craven Sanitary District**  
**PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)**  
**LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM**  
**For the Fiscal Year Ended June 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
First Craven's proportion of the net pension liability (asset) (%)	0.000028%	0.000029%	0.000021%	0.000031%
First Craven's proportion of the net pension liability (asset) (\$)	\$ 42,012	\$ 61,123	\$ 9,604	\$ (18,163)
First Craven's covered-employee payroll	\$ 189,179	\$ 178,410	\$ 164,863	\$ 166,273
First Craven's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	22.20%	34.26%	5.83%	(10.92%)
Plan fiduciary net position as a percentage of the total pension liability	94.18%	91.47%	98.09%	102.64%

**First Craven Sanitary District  
CONTRIBUTIONS  
LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM  
For the Fiscal Year Ended June 30, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 15,248	\$ 14,182	\$ 12,345	\$ 12,376
Contributions in relation to the contractually required contribution	<u>15,248</u>	<u>14,182</u>	<u>12,345</u>	<u>12,376</u>
Contribution deficiency (excess)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
First Craven's covered employees payroll	189,179	182,588	178,410	164,863
Contributions as a percentage of covered-employee payroll	8.06%	7.77%	6.92%	7.51%

**SUPPLEMENTARY INFORMATION**

**First Craven Sanitary District**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**For the Fiscal Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
<b>Operating Revenues</b>			
Water service revenue	\$ 867,500	\$ 951,055	\$ 83,555
Water tap-on fees	14,500	17,225	2,725
Reconnect fees	12,200	13,440	1,240
Application fees	10,000	10,500	500
Impact fees	0	0	0
Other revenues	213,300	13,484	(199,816)
<b>Total Operating Revenues</b>	<u>1,117,500</u>	<u>1,005,704</u>	<u>(111,796)</u>
<b>Non-operating Revenues</b>			
Interest income	7,500	8,384	884
<b>Total Non-Operating Revenues</b>	<u>7,500</u>	<u>8,384</u>	<u>884</u>
<b>Total Revenues</b>	<u>1,125,000</u>	<u>1,014,088</u>	<u>(110,912)</u>
<b>EXPENDITURES</b>			
<b>Water Treatment and Distribution</b>			
Chemicals, salt and chlorine	78,000	68,045	9,955
Gas, oil and tires	10,200	8,460	1,740
Repairs and maintenance	36,100	14,963	21,137
Professional services	40,000	27,297	12,703
Supplies and materials	56,000	43,557	12,443
Utilities	43,000	40,656	2,344
Water testing	20,000	18,172	1,828
Uniform rental	2,100	1,407	693
Lab supplies	1,000	607	393
Other expenditures	4,700	4,497	203
<b>Total Water Treatment</b>	<u>291,100</u>	<u>227,661</u>	<u>63,439</u>
<b>Personnel and Related Costs</b>			
Salaries	195,300	189,179	6,121
Retirement expense	24,000	18,470	5,530
Group insurance	29,000	26,786	2,214
Payroll taxes	19,000	16,572	2,428
<b>Total Personnel and Related Costs</b>	<u>267,300</u>	<u>251,007</u>	<u>16,293</u>

**First Craven Sanitary District**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**For the Fiscal Year Ended June 30, 2018**

**General and Administrative Costs**

Insurance and bonds	15,300	15,253	47
Workers compensation	7,700	6,127	1,573
Professional services	12,100	10,501	1,599
Board member fees	12,500	12,375	125
Computer support	5,500	5,152	348
Cleaning services	500	480	20
Bank service charges	400	(97)	497
Printing services	4,600	3,139	1,461
Security	1,500	1,329	171
Employee education	1,400	570	830
Postage	11,000	9,236	1,764
Telephone	3,200	2,845	355
Travel	300	0	300
Office supplies	5,800	4,904	896
Dues and subscriptions	5,000	4,176	824
Advertising	500	91	409
Other expenditures	3,300	2,512	788
<b>Total General and Administrative</b>	<u>90,600</u>	<u>78,593</u>	<u>12,007</u>

**Debt Service**

Interest and other charges	83,452	81,507	1,945
Principle retirement	134,548	134,548	0
<b>Total Debt Service</b>	<u>218,000</u>	<u>216,055</u>	<u>1,945</u>

**Capital Outlay**

Capital Outlay	<u>258,000</u>	<u>233,492</u>	<u>24,508</u>
<b>Total Expenditures</b>	<u>1,125,000</u>	<u>1,006,808</u>	<u>118,192</u>
<b>Revenues Over (Under) Expenditures</b>	<u>0</u>	<u>7,280</u>	<u>7,280</u>

**REVENUES AND OTHER FINANCING SOURCES  
(USES) OVER (UNDER) EXPENDITURES**

\$ <u>0</u>	\$ <u>7,280</u>	\$ <u>7,280</u>
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**First Craven Sanitary District**  
**SCHEDULE OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**For the Fiscal Year Ended June 30, 2018**

**Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual**

<b>REVENUES AND OTHER FINANCING SOURCES (USES) OVER (UNDER)</b>	
<b>EXPENDITURES</b>	\$ 7,280
<b>RECONCILING ITEMS</b>	
Capital outlay	233,492
Depreciation	(185,287)
Principle retirement	<u>134,548</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 190,033</u>

**COMPLIANCE SECTION**

# WILSON, JONES & GRIFFIN, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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114 East 2<sup>nd</sup> Street  
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R. LEWIS JONES, C.P.A.  
ROBERT T. GRIFFIN, JR., C.P.A.

**MEMBER**  
North Carolina Association  
and American Institute of  
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  
First Craven Sanitary District  
Bridgeton, 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 accompanying financial statements of the business-type activities of First Craven Sanitary District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise First Craven Sanitary District's basic financial statements, and have issued our report thereon September 28, 2018.

### Internal Control Over Financial Reporting

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether First Craven Sanitary District's financial statements are free of 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.

*Wilson, Jones & Griffin, P.A.*

Wilson, Jones & Griffin, P.A.

September 28, 2018