

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
W-354, SUB 398
Public Staff Data Request No. 3
Date Requested: September 6, 2022
Date Due: September 16, 2022
(CWSNC requested extension through 9.23.22)

Public Staff Technical Contact: Charles M. Junis
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Please provide responses to this request in a searchable native electronic format (e.g., Excel, Word, or PDF files). If in Excel format, please include all working formulas. In addition, please include: (1) the name and title of the individual who has the responsibility for the subject matter addressed therein; and (2) the identity of the person making the response by name, occupation, and job title. Please also refer to Public Staff Data Request No. 1 for instructions for responding to this and all other Data Requests served on the Company by the Public Staff in the above-captioned proceeding.

Topic: Direct Testimony of Donald H. Denton III

1. On page 3, lines 1-5 of the Direct Testimony of Donald H. Denton III, Mr. Denton states, "In order to make the transaction feasible, the "fair value" methodology must be employed in order to capture the reasonable, realistic value of this system as it migrates from ownership by a governmental entity to ownership by a utility regulated by the North Carolina Utilities Commission ("NCUC" or "Commission")." Please provide an explanation for what is meant by "to make the transaction feasible, the "fair value" methodology must be employed." In addition, please indicate whether CWSNC attempted to purchase the Carteret County Water System, or any other system owned by a governmental entity, prior to Session Law 2018-51, including the outcome and whether an out bid process was utilized.

RESPONSE:

The General Assembly authorized the Fair Value mechanism in G.S. 62-133.1A, setting forth a process to be utilized in the determination of Fair Value, and thence Rate Base, in the purchase by a regulated public utility of certain

governmentally owned utilities. Many of the decisions which the Public Staff seeks to investigate in these DR's have been made by the General Assembly, and CWSNC will not attempt to replicate the reasons for the General Assembly's decisions here.

See <https://www.ncleg.gov/Sessions/2017/Bills/House/PDF/H351v6.pdf>

However, given existing regulatory practices for the determination of rate base, it is Mr. Denton's professional, business opinion that governmental utilities are unlikely to sell their assets for prices that compare to the low rate base value that would likely be established by use of traditional accounting practices utilized in the regulatory arena. The General Assembly has made the foundational policy decision for an approach to valuation by authorizing this mechanism for determination of rate base in qualifying purchases, and CWSNC and the County have complied with its provisions as they pursue a contract of sale and as the Company seeks a decision on rate base.

CWSNC's efforts to negotiate other purchases are confidential, for obvious reasons in an increasingly competitive space; many of these are/were in the initial phase of discussion in which potential sellers are simply evaluating options.

2. On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, "Absent the ability to establish a realistic level of "market" value of such assets, there is an insurmountable obstacle to purchases of governmental systems by utilities that are regulated under Chapter 62 of the General Statutes." Please provide a list of systems CWSNC has attempted to purchase but was unable to due to regulation under Chapter 62.

RESPONSE:

CWSNC objects to this question based on relevancy and on the basis of trade secret sensitivities. Mr. Denton's observations are predicated on his experience and are supported by his understanding of the market space.

This information is confidential as a trade secret, both for pending and past negotiations. Any prospective purchaser must have the ability to maintain discretion and confidentiality about proposed acquisitions, whether they are successful or not.

Again, the General Assembly has made the policy decision here about the way valuations can be accomplished for purposes of rate base determination.

3. On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, "If limited, for rate base purposes, to recognition only of the original cost of the Carteret

County Water System, CWSNC could not justify as prudent a purchase price that would reflect a fair, reasonable, or realistic value for the asset.” Please provide the amount CWSNC determined to be the original cost of the Carteret County Water System. In addition, please indicate whether a purchase price of \$4.9 million “would reflect a fair, reasonable, or realistic value for the asset.”

RESPONSE:

CWSNC does not recognize the reference to \$4.9mm. Generally, any willing seller and willing buyer in any market will both be willing to transact over a “fair value” of the asset being sold, and original cost is not necessarily relevant in this context. The focus on “original cost” could inappropriately “anchor” a position on reasonableness when comparing to expert valuations. This is precisely what the FMV statute allows for, and a transaction price has inherent reasonability based on this arms-length process

4. On page 4, lines 5-7 of his Direct Testimony, Mr. Denton states, “This historical barrier has consisted of an inability to correlate fair purchase prices with the rate base values of the asset to the regulated utility.” Please provide an explanation of how a purchase price that exceeds the rate base value of assets, if recoverable in rates, would impact customers’ rates.

RESPONSE:

Objection based on relevance. The FMV statute leads to a calculation of rate base that is the lesser of the average of three Valuations or of the purchase price. Therefore, under the statute, if the purchase price exceeds the calculated Fair Value, then the rate base is set at the Fair Value. Thus, governmental providers and regulated utilities are now able to transact sales based on a scrutinized, analyzed, rational current value of the system assets.

The political decisions about the best interest of the governmental units’ customers are made by the governmental unit, appropriately, and the legislation provides a means by which the value in the regulated utility’s system is determined based on engineering and appraisal principles, as offered by qualified experts.

5. On page 7, lines 5-8 of his Direct Testimony, Mr. Denton states, “Carteret County and its customers will benefit from CWSNC’s access to financial capital, which is used to ensure that necessary and prudent investments are made on a timely basis, in order to provide safe, reliable, and compliant service.” Please provide a list of occurrences, including date and description, when Carteret County did not provide “safe, reliable, and compliant service.” For each occurrence, please provide an explanation of how “CWSNC’s access to financial capital” would have prevented the occurrence. In addition, please provide a comparison of the cost of capital for CWSNC and Carteret County.

RESPONSE:

- a. CWSNC has not alleged failures to provide safe, reliable, and compliant service. It does tout the obvious advantages of service, expertise, and investment capability associated with a well-run, rigorously regulated, public utility.
 - b. The political, public interest decision for Carteret County has been made here by the County government, the current provider and the responsible entity.
 - c. Access to capital is about more than cost of capital. CWSNC can spread cost of capital across a much wider spectrum of customers. The Company's access to capital is much broader and direct thru CRU's consolidated reach and cash flows compared to a municipal entity.
6. On page 7, lines 10-13 of his Direct Testimony, Mr. Denton states, "The County's operating expenses have exceeded water service revenues in recent years and the deficits have been subsidized by tax revenues generated from supplemental taxes." Please provide an explanation for which years are referenced by "recent years." In addition, please indicate whether the quoted testimony is applicable to the rates set by the County in the Water Service Fee Schedule FY 22 or its current fee schedule.

RESPONSE:

The special water tax was established in 2010, so it would stand to reason certain deficits have been supplemented by the tax since that year---it appears that 2010 began the cross-subsidization of water costs with tax dollars. Specific reference to revenue and expenditures of the tax are noted in the original engineering assessment (table 1) for Fiscal Years 2018, 2019, and 2020.

On July 1, 2021 through August 31, 2021, Carteret county increased average residential bills at 4,000 gallons of usage by 95%, representing the unsubsidized rate to those specific water customers.

On September 1, 2021, Carteret County reduced average residential bills at 4,000 gallons of usage by 25%.

Note that the tax is no longer included in rates set by the County for FYE 2022, and that average residential bills have increased by approximately 46% since eliminating the tax, thus shifting revenues back to water from tax sources which more closely reflects the true cost of service for Carteret water.

Carteret Avg Residential Bill @ 4,000 gals				
Date:	FY 20-21	7/1/21-8/31/21	9/1/21-6/30/22	FY 22-23
BFC	\$ 27.50	\$ 53.65	\$ 40.25	\$ 40.25
Volume \$/1,000	\$ 6.90	\$ 13.45	\$ 10.10	\$ 10.10
Avg Bill:	\$ 55.10	\$ 107.45	\$ 80.65	\$ 80.65
% Increase		95.01%	-24.94%	0%
		% Increase over FY 20 Avg Bill:		46.37%

Additionally, please see the Water Fund discussion in the Carteret County 2021 and 2022 budgets which discuss user revenue and Water Taxing District Special Revenue Funds.

2021: <https://www.carteretcountync.gov/ArchiveCenter/ViewFile/Item/1408> (Starting on Page 15)

2022: <https://www.carteretcountync.gov/ArchiveCenter/ViewFile/Item/1409> (Starting on Page 13)

- On page 7, lines 13-15 of his Direct Testimony, Mr. Denton states, “CWSNC’s ownership will provide the financial and operational resources needed to manage Carteret County’s water system efficiently and safely.” Please indicate whether Carteret County is providing inefficient and/or unsafe service

RESPONSE:

CWSNC has not alleged that Carteret County is providing inefficient and/or unsafe service. CWSNC has stated that it’s ownership will provide the financial and operational resources needed to manage the water system efficiently and safely.

- On page 7, lines 18-21 of his Direct Testimony, Mr. Denton states, “CWSNC’s existing customers will also realize benefits from the acquisition of Carteret County’s utility system. The additional customers gained by this transfer will provide economies of scale by spreading existing fixed costs over a larger customer base.” Please provide an explanation of how acquiring the Carteret County Water System with a requested rate base of \$9.5 million would benefit CWSNC’s existing customers.

RESPONSE:

Economies of scale, efficiencies from expansion of footprint in terms of deployment of resources, spreading overhead----this Commission has long recognized the benefits of consolidation. Further, shared service costs such as customer service, billing, IT support, etc. will be split between a larger customer base.

- On page 7, line 21 through page 8, line 4 of his Direct Testimony, Mr. Denton states, “Carteret County and CWSNC’s customers will also experience the

advantages of operating within a uniform group of ratepayers which includes smoother rate adjustments, regulatory and operational cost efficiencies, and shared access to support for vital capital needs.” Please provide specific examples, including calculations and assumptions, of “regulatory and operational cost efficiencies” CWSNC anticipates achieving with the purchase of the Carteret County Water System.

RESPONSE:

See response to Question 8. The opportunities for regulatory and operational cost efficiencies in a more consolidated environment, with the ability to share resources across units and to share overhead across larger numbers is, and CWSNC represents, obvious and well-understood.

Various operating and administrative efficiencies – including extracting more value from existing resources - are expected to accrue over time as Carteret is integrated into the CWSNC systems. After the now-CWSNC system was largely consolidated in the NCUC regulatory arena, the Company was able to minimize and streamline rate filings, reporting and monitoring requirements (both internally and externally), and tariffs, and therefore more directly align its operating and administrative practices in a uniform fashion and efficiently deploy resources. An acquisition of Carteret’s size and location, in relation to CWSNC’s existing systems, is expected to generate efficiencies of similar forms. Carteret will also attain regulatory review at the rigorous level of the NCUC and gain the decades of broad expertise inherent in NCUC oversight.

CAROLINA WATER SERVICE, INC. OF NORTH CAROLINA
W-354, SUB 398
Public Staff Data Request No. 4
Date Requested: September 26, 2022
Date Due: September 30, 2022

Public Staff Technical Contact: Charles M. Junis
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Public Staff Legal Contacts: Gina Holt
Phone #: (919) 733-6110
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William E. H. Creech
Phone #: (919) 733-6110
Email: zeke.creech@psncuc.nc.gov

Please provide responses to this request in a searchable native electronic format (e.g., Excel, Word, or PDF files). If in Excel format, please include all working formulas. In addition, please include: (1) the name and title of the individual who has the responsibility for the subject matter addressed therein; and (2) the identity of the person making the response by name, occupation, and job title. Please also refer to Public Staff Data Request No. 1 for instructions for responding to this and all other Data Requests served on the Company by the Public Staff in the above-captioned proceeding.

Topic: Direct Testimony of Donald H. Denton III Follow-up to Data Request No. 3

1. In response to Public Staff Data Request (DR) 3, Question 1 (Q1), the Company stated in pertinent part that, "The General Assembly has made the foundational policy decision for an approach to valuation by authorizing this mechanism for determination of rate base in qualifying purchases, and CWSNC and the County have complied with its provisions as they pursue a contract of sale and as the Company seeks a decision on rate base."
 - a. Did the Company, its trade associations, and/or others on the Company's behalf support this legislation?

RESPONSE: Objection---not relevant or likely to lead to relevant information. Participation in the legislative process is irrelevant to the implementation of the statute; the plain language of the law controls.

- b. Did the Company, its trade associations, and/or others on the Company's behalf undertake lobbying activities relating to this legislation?

RESPONSE: Objection---not relevant or likely to lead to relevant information. Participation in the legislative process is irrelevant to the implementation of the statute; the plain language of the law controls.

- c. Please provide documentation of the Company's lobbying efforts supporting the passage of House Bill 351, including invoices and any draft language, to modify N.C. Gen. Stat. § 62-133.(c) and/or add § 62-133.1A, provided by the Company or on the Company's behalf to trade associations and/or the General Assembly, its members, and/or staffers.

RESPONSE: Objection---not relevant or likely to lead to relevant information. Participation in the legislative process is irrelevant to the implementation of the statute; the plain language of the law controls.

2. In response to Public Staff DR 3, Q 1, the Company stated in pertinent part that, "CWSNC's efforts to negotiate other purchases are confidential, for obvious reasons in an increasingly competitive space; many of these are/were in the initial phase of discussion in which potential sellers are simply evaluating options." For reference, however, DR 3, Q1, states in pertinent part, "In addition, please indicate whether CWSNC attempted to purchase the Carteret County Water System, or any other system owned by a governmental entity, prior to Session Law 2018-51, including the outcome and whether an out bid process was utilized." The Company did not object to the request. Please provide the requested information confidentially.

RESPONSE: The Company certainly intended that its response to the DR 3, Q 1, request be treated as an objection – the request not only asks about confidential matters but seeks information that is not relevant to this proceeding nor likely to result in admissible evidence. Note that the earlier Company response stated in part: "Many of the decisions which the Public Staff seeks to investigate in these DR's have been made by the General Assembly, and CWSNC will not attempt to replicate the reasons for the General Assembly's decisions here." The DR 3, Q 1, has two parts to it, and the Company provided a response to the part that asked about Mr. Denton's direct testimony. However, the Company maintains that the second part ("In addition please indicate whether CWSNC attempted to purchase the Carteret County Water System, or any other system owned by a governmental entity, prior to Session Law 2018-51, including the outcome and whether an out bid process was utilized.") is totally irrelevant and objectionable because, as previously noted, this proceeding is about what happens after the effective date of the Fair Value legislation and has nothing to do with what happened before that legislation. The Company's prior confidential business activity is not a proper basis for challenging the policy decision made by the North Carolina General Assembly. The Company's objection to this request is essentially the same objection that the Company earlier made in response to DR 3, Q 2.

3. Public Staff Data Request 3, Q 2, and the Company's response are as follows:

On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, "Absent the ability to establish a realistic level of "market" value of such assets, there is an insurmountable obstacle to purchases of governmental systems by utilities that are regulated under Chapter 62 of the General Statutes." Please provide a list of systems CWSNC has attempted to purchase but was unable to due to regulation under Chapter 62.

RESPONSE:

CWSNC objects to this question based on relevancy. The plain language of the statute prevails in its application to this case. The business efforts undertaken by CWSNC are not relevant to the application of the law to this case, nor will discussion of them lead to any relevant information. Mr. Denton's observations are predicated on his experience and are supported by his understanding of the market space.

Again, the General Assembly has made the policy decision here about the way valuations can be accomplished for purposes of rate base determination. That is what is at issue herein and CWSNC's prior or current activities in the market place are irrelevant.

The testimony claims a purchase of a governmental system by a Commission-regulated utility could not happen without the "ability to establish a realistic level of "market" value." Evidence of any failed attempts to negotiate and complete similar purchases without fair value would be relevant to substantiate such a claim. Please provide the information confidentially.

RESPONSE: The Company objects due to lack of relevance and the unlikelihood that the request will result in any admissible evidence. The number of negotiations or conversations that CWSNC has had with prospective Sellers is irrelevant to the purpose or requirements of the Fair Value statute. Evidence of past efforts to purchase governmental systems by the Company should not – and lawfully cannot – be used in a Commission proceeding to challenge legislative policy; nor would such evidence have any other purpose relevant to application of G.S. 62-133.1A.

4. Public Staff DR 3, Q3, and the Company's response are as follows:

On page 3, lines 5-8 of his Direct Testimony, Mr. Denton states, "If limited, for rate base purposes, to recognition only of the

original cost of the Carteret County Water System, CWSNC could not justify as prudent a purchase price that would reflect a fair, reasonable, or realistic value for the asset.” Please provide the amount CWSNC determined to be the original cost of the Carteret County Water System. In addition, please indicate whether a purchase price of \$4.9 million “would reflect a fair, reasonable, or realistic value for the asset.”

RESPONSE:

CWSNC does not recognize the reference to \$4.9mm. Generally, any willing seller and willing buyer in any market will both be willing to transact over a “fair value” of the asset being sold, and original cost is not necessarily relevant in this context. The focus on “original cost” could inappropriately “anchor” a position on reasonableness when comparing to expert valuations. This is precisely what the FMV statute allows for, and a transaction price has inherent reasonability based on this arms-length process

The testimony claims original cost could not be used by CWSNC to “justify as prudent a purchase price that would reflect a fair, reasonable, or realistic value for the asset.” This conclusion cannot be reached without first determining the original cost. Furthermore, the \$4.9 million bid by CWSNC for the Carteret County Water System was specifically discussed by Eugene Foxworth, Assistant County Manager, at the Carteret County Board of Commissioners Regular Session on February 15, 2021. See excerpt below. Please provide complete responses to DR 3, Q3.

We met with the Town of Beaufort and they were not interested in acquiring our system. Subsequently, two private water companies approached us about acquiring the system. They were Carolina Water Systems, and Aqua NC. As with any other disposition of property, Commissioners stated their preference for the upset bid process. The County Manager, County Attorney, and I have met with both companies multiple times. Aqua NC submitted an offer of \$7,000,000. Carolina Water Systems submitted an offer of \$4,900,000 for this system. I want to point out that this is not a quick process. If the Board decides to move forward, it will be nine to twelve months; there are a lot of approvals from the Utilities Commission, and other due diligences that have to take place in the process. We will also need authorization of the Commissioners to go out and get an additional appraisal on this system.

Commissioner Chadwick asked Mr. Foxworth once we accept the high bid, that opens it up for other companies to upset that bid? Mr. Foxworth stated that was correct. The Board would instruct the Clerk to put it up for upset bid. Chairman Wheatly confirmed that it was a ten-day upset bid timeframe.

RESPONSE: Thank you for explaining the source of the \$4.9 million reference in DR 3. The Company does not have an original cost rate

base calculation for the Carteret County water system, and disagrees that a specific original cost number is necessary to conclude that use of an original cost rate base would leave the Company with unrecovered investment. Normally a system will sell for more than original cost. This is evident in the transfer cases between private utilities where an acquisition adjustment exists, whether or not allowed for ratemaking. It is reasonable for a utility to conclude that rate base at fair market value/purchase price more rationally supports purchase than rate base at net original cost. That is why the Company favors the General Assembly's approach in G.S. 62-133.1A, creating a fair market value (or purchase price, whichever is lower) approach to rate base in lieu of original cost. That legislation provides for fair market value to be established by professional appraisers, not by net original cost valuation. That legislation also incentivizes utilities to acquire municipal systems that need better financing or operational resources by allowing fair market value (or purchase price) into rate base instead of original cost.

5. Public Staff DR 3, Q8, and the Company's response are as follows:

On page 7, lines 18-21 of his Direct Testimony, Mr. Denton states, "CWSNC's existing customers will also realize benefits from the acquisition of Carteret County's utility system. The additional customers gained by this transfer will provide economies of scale by spreading existing fixed costs over a larger customer base." Please provide an explanation of how acquiring the Carteret County Water System with a requested rate base of \$9.5 million would benefit CWSNC's existing customers.

RESPONSE:

Economies of scale, efficiencies from expansion of footprint in terms of deployment of resources, spreading overhead----this Commission has long recognized the benefits of consolidation. Further, shared service costs such as customer service, billing, IT support, etc. will be split between a larger customer base.

Please provide CWSNC's quantification, including assumptions and calculations, of the rate impact of the purchase price and cost savings from the larger customer base.

RESPONSE: The short-term rate impact of the proposed purchase of the Carteret County system by the Company is shown in the customer notice accompanying the Commission's scheduling order in this docket and in W-354, Sub 399. Rates beyond four years have not been

estimated; nor have the savings impact solely from efficiencies for the Carteret system been quantified. Rather, the response in DR 3, Q 8, reflects a qualitative understanding that when fixed costs are spread over a larger number of customers, economies of scale result and ultimately help keep rates lower than they would otherwise be.

6. Public Staff DR 3, Q8, and the Company's response are as follows:

On page 7, line 21 through page 8, line 4 of his Direct Testimony, Mr. Denton states, "Carteret County and CWSNC's customers will also experience the advantages of operating within a uniform group of ratepayers which includes smoother rate adjustments, regulatory and operational cost efficiencies, and shared access to support for vital capital needs." Please provide specific examples, including calculations and assumptions, of "regulatory and operational cost efficiencies" CWSNC anticipates achieving with the purchase of the Carteret County Water System.

RESPONSE:

See response to Question 8. The opportunities for regulatory and operational cost efficiencies in a more consolidated environment, with the ability to share resources across units and to share overhead across larger numbers is, and CWSNC represents, obvious and well-understood.

Various operating and administrative efficiencies – including extracting more value from existing resources - are expected to accrue over time as Carteret is integrated into the CWSNC systems. After the now-CWSNC system was largely consolidated in the NCUC regulatory arena, the Company was able to minimize and streamline rate filings, reporting and monitoring requirements (both internally and externally), and tariffs, and therefore more directly align its operating and administrative practices in a uniform fashion and efficiently deploy resources. An acquisition of Carteret's size and location, in relation to CWSNC's existing systems, is expected to generate efficiencies of similar forms. Carteret will also attain regulatory review at the rigorous level of the NCUC and gain the decades of broad expertise inherent in NCUC oversight.

Please provide CWSNC's quantification, including assumptions and calculations, the cost saving efficiencies generated by consolidation of the Carteret system, and how those savings will be passed to customers.

RESPONSE: Please see the response to Question 5, above. The testimony reflects a qualitative understanding, not quantified. In addition to the economies of spreading fixed costs over more customers, the customers of the Carteret County water system will benefit from spreading regulatory costs such as rate case expense over all the customers in uniform rates. These savings will be passed on to customers in future rate proceedings as the cost basis is spread to additional customers.

Prepared by Jo Anne Sanford, Matthew Schellinger, David Drooz and Don Denton.

Board of Commissioners
Ed Wheatly, Chair
Mark Mansfield, Vice-Chair
Bob Cavanaugh
Chris Chadwick
Robin V. Comer
Jimmy Farrington
Chuck Shinn



October 5, 2022

North Carolina Utilities Commission

Via Public Staff Technical and Legal Email

Ref: Public Staff Data Request No. 6, W-354, Sub 398

To All Concerned,

Please see the attached file containing the Carteret County responses to Public Staff Data Request No. 6. This document was prepared by myself with assistance from Dee Meshaw, Assistant County Manager and Gene Foxworth, Assistant County Manager.

Sincerely,

A handwritten signature in blue ink that reads "Tommy Burns".

Tommy Burns

Carteret County Manager

Carteret County Responses
W-354, SUB398
Public Staff Data Request No. 6

OFFICIAL COPY

Oct 14 2022

Topic: Carteret County

1. Regarding Form Application Exhibit 5A, there is description of subsidized initial hook ups as parts of Phases 3 and 4.
 - a. If County residents signed up and paid minimum monthly charges, is the County still liable for connecting the premise at the owner's request at no additional cost?

Yes, Carteret County is liable for these connections at no additional cost. There are 237 customers to which this would apply. These 237 customers fulfilled their contract, meaning they will not have to pay tap fees when they choose to tap into the water system. The infrastructure in the ground is the meter box and meter. The only thing the County is liable for is turning the meter on once the customer connects the plumbing in their home or business to the meter which is done at the customer's expense.

- b. Please provide clarification regarding this arrangement and under what terms and conditions a potential new customer can obtain water service.

The following response is for customers other than the 237 described above. If a citizen calls and wants County water service, they are required to pay tap fees plus a deposit. They place a blue flag where they would like the meter box installed. Once the meter box and meter are installed, the customer is responsible for plumbing from the meter box to their home or business. The customer then arranges an inspection with Carteret County's Planning Department. Once inspection is passed, Carteret County turns on the meter for the customer to receive water.

Response prepared by Dee Meshaw, Carteret County Assistant Manager and Finance Director.

302 Courthouse Square
Beaufort, NC 28516
(252) 728-8450

2. Please provide a copy of the Water System Audit FY22.
 - a. Carteret County's FY22 audit is not complete. The unaudited Water Fund Statements for the year ending June 30, 2022 are provided. (See Attachment 2A)
 - b. A spreadsheet of the Fund Income Statement is provided for fiscal years ending June 30, 2003 through 2022. (See Attachment 2B)

Response prepared by Dee Meshaw, Carteret County Assistant Manager and Finance Director.

302 Courthouse Square
Beaufort, NC 28516
(252) 728-8450

Carteret County, North Carolina

Statement of Fund Net Position - Proprietary Fund
June 30, 2022, unaudited

	Water Fund
Assets	
Current assets	
Cash and cash equivalents	\$ 2,574,707
Receivables, net	98,140
Restricted cash and cash equivalents	43,932
Total current assets	<u>2,716,779</u>
Noncurrent assets	
Capital assets:	
Land, improvements, and construction in progress	222,608
Other capital assets, net of depreciation	5,179,419
Total capital assets	<u>5,402,027</u>
Total noncurrent assets	<u>5,402,027</u>
Total assets	<u>8,118,806</u>
Deferred outflows of resources	<u>89,891</u>
Liabilities	
Current liabilities	
Accounts payable and accrued expenses	550,655
Customer deposits	120,415
Accrued interest payable	4,432
Current portion of long-term liabilities	192,165
Total current liabilities	<u>867,667</u>
Noncurrent liabilities	
Installment loan payable and long-term liabilities	1,306,000
Net pension liability	47,840
Total OPEB liability	112,493
Total noncurrent liabilities	<u>1,466,333</u>
Total liabilities	<u>2,334,000</u>
Deferred inflows of resources	<u>69,524</u>
Net Position	
Net investment in capital assets	3,904,995
Unrestricted	1,900,178
Total net position	<u>\$ 5,805,173</u>

See Notes to Financial Statements.

Carteret County, North Carolina

Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund
 Year Ended June 30, 2022, unaudited

	Water Fund
Operating revenues	
Charges for services	\$ 1,095,320
Other operating revenues	585
Total operating revenues	<u>1,095,905</u>
Operating expenses	
Water plant operations	655,527
Depreciation	357,187
Total operating expenses	<u>1,012,714</u>
Operating loss	<u>83,191</u>
Nonoperating revenues (expenses)	
Interest revenue	-
Interest expense	(43,586)
Total nonoperating revenues (expenses)	<u>(43,586)</u>
Loss before contributions and transfers	39,605
Transfers in	372,670
Change in net position	<u>412,275</u>
Total net position	
Beginning	5,392,898
Ending	<u>\$ 5,805,173</u>

See Notes to Financial Statements.

Carteret County, North Carolina

Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2022, unaudited

	Water Fund
Cash flows from operating activities	
Cash received from customers	\$ 1,075,018
Cash paid for goods and services	(329,000)
Cash paid to employees for services	(295,434)
Customer deposits received	4,650
Other operating revenues	585
Net cash used in operating activities	<u>455,819</u>
Cash flows from noncapital financing	
Transfers in	<u>372,670</u>
Net cash provided by noncapital financing	<u>372,670</u>
Cash flows from capital and related financing activities	
Principal paid on installment debt	(190,032)
Interest paid on installment debt	(44,441)
Bid deposit on potential sale of water system	-
Net cash provided by capital and related financing activities	<u>(234,473)</u>
Cash flows provided by investing activities	
Interest on investments	<u>-</u>
Net increase in cash and cash equivalents	594,016
Cash and cash equivalents:	
Beginning	<u>2,024,623</u>
Ending (including restricted of \$43,932)	<u>\$ 2,618,639</u>

(Continued)

Statement of Cash Flows - Proprietary Fund (Continued)
Year Ended June 30, 2022, unaudited

	Water Fund
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ 83,191
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	357,187
Changes in assets, liabilities, and deferred outflows and inflows of resources:	
Increase in accounts receivable	(20,302)
Increase in accounts payable and accrued liabilities	44,680
Increase in customer deposits	4,650
Decrease in accrued vacation pay	(18,771)
Increase in deferred outflows of resources - pensions	(6,386)
Increase in deferred outflows of resources - OPEB	(8,120)
Decrease in net pension liability	(62,701)
Increase in total OPEB liability	15,183
Increase in deferred inflows of resources - pensions	67,652
Decrease in deferred inflows of resources - OPEB	(444)
Net cash used in operating activities	\$ 455,819

See Notes to Financial Statements.

Carteret County, North Carolina

Water Operating Fund

Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
Year Ended June 30, 2022, unaudited

	Budget	Actual	Variance Positive (Negative)
Revenues, Operating			
Charges for services	\$ 1,109,500	\$ 1,095,320	\$ (14,180)
Other operating revenue	500	585	85
Total operating revenues	1,110,000	1,095,905	(14,095)
Expenditures, Operating			
Cost of sales and services:			
Salaries and benefits	388,400	295,805	92,595
Operating expense	773,335	373,309	400,026
Total operating expenditures	1,161,735	669,114	492,621
Operating revenues (under) over operating expenditures	(51,735)	426,791	478,526
Nonoperating Revenues (Expenditures)			
Interest earnings	500	-	(500)
Interest payments	(46,000)	(44,441)	1,559
Principal payments	(190,080)	(190,032)	48
Total nonoperating revenues (expenditures)	(235,580)	(234,473)	1,107
Revenues under expenditures	(287,315)	192,318	479,633
Other Financing Sources (Uses)			
Transfer from other funds	372,670	372,670	-
Contingency	(85,355)	-	85,355
Appropriated Fund Balance	-	-	-
Total other financing sources (uses)	287,315	372,670	85,355
Revenues and other financing sources over expenditures and other financing sources (uses)	\$ -	\$ 564,988	\$ 564,988
Reconciliation of modified accrual basis to full accrual basis:			
Revenues and other financing uses over expenditures		\$ 564,988	
Decrease in debt interest accrued		855	
Decrease in accrued vacation pay		18,771	
Depreciation		(357,187)	
Increase in deferred outflows of resources pensions		6,386	
Increase in deferred outflows of resources OPEB		8,120	
Decrease in net pension liability		62,701	
Increase in OPEB liability		(15,183)	
Increase in deferred inflows of resources pensions		(67,652)	
Decrease in deferred inflows of resources OPEB		444	
Principal on debt		190,032	
Change in net position		\$ 412,275	

Excerpts from Carteret County, NC Notes
 Fiscal Year Ending June 30, 2022, unaudited

Note 5. Capital Assets

	Capital Assets July 1, 2021	Additions	Retirements	Adjustments and Transfers	Capital Assets June 30, 2022
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 222,608	\$ -	\$ -	\$ -	\$ 222,608
Total capital assets, not being depreciated	<u>222,608</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>222,608</u>
Capital assets, being depreciated:					
Buildings	2,119,264	-	-	-	2,119,264
Infrastructure	9,618,564	-	-	-	9,618,564
Vehicles	75,129	-	-	-	75,129
Equipment	159,478	-	-	-	159,478
Total capital assets, being depreciated	<u>11,972,435</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,972,435</u>
Less accumulated depreciation for:					
Buildings	1,248,010	70,642	-	-	1,318,652
Infrastructure	4,965,996	277,548	-	-	5,243,544
Vehicles	63,761	7,580	-	-	71,341
Equipment	158,062	1,417	-	-	159,479
Total accumulated depreciation	<u>6,435,829</u>	<u>\$ 357,187</u>	<u>\$ -</u>	<u>\$ -</u>	<u>6,793,016</u>
Total capital assets, being depreciated, net	<u>5,536,606</u>				<u>5,179,419</u>
Business-type activities capital assets, net	<u>\$ 5,759,214</u>				<u>\$ 5,402,027</u>

The above depreciation was charged to water activities and the Water Fund.