

CLEVELAND COUNTY WATER

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2025

CLEVELAND COUNTY WATER

ORGANIZATION AND BUSINESS

For the Year Ended June 30, 2025

BOARD OF COMMISSIONERS

Donald Melton, Chairman

Bill Cameron, Vice Chairman

Amy Elliott Bridges, Secretary

Pamela P. Maddox

Tony Brooks

Bruce Martin

CJ Pete Pedersen

ADMINISTRATIVE AND FINANCIAL STAFF

Brad Cornwell, General Manager

Ginger Fern, Finance Director

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FOR THE FISCAL YEAR ENDED JUNE 30, 2025

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

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

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of Cleveland County Water as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Cleveland County Water's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Cleveland County Water as of June 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Change in Accounting Principle

As discussed in the notes to the financial statements, for the fiscal year ended June 30, 2025, Cleveland County Water adopted new accounting guidance, Governmental Accounting Standards Board (GASB) No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cleveland County Water's basic financial statements. The budgetary schedules, as well as the Schedule of Expenditures of Federal and State Awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary schedules and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2025 on our consideration of Cleveland County Water's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of Cleveland County Water's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cleveland County Water's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
December 5, 2025

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Management's Discussion and Analysis

Management's Discussion and Analysis ("MD&A") provides a narrative for Cleveland County Water's financial activities for the fiscal year ended June 30, 2025. The information complements the data presented in the financial statements and is to be used to enhance the reader's understanding of Cleveland County Water's financial performance.

Financial Highlights

- Cleveland County Water's basic financial statements consist of a single enterprise fund.
- At June 30, 2025, Cleveland County Water's assets and deferred outflows exceeded its liabilities and deferred inflows by \$68,136,305.
- At June 30, 2025, Cleveland County Water's unrestricted net position was \$7,375,077.

Overview of the Financial Statements

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

Basic Financial Statements

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

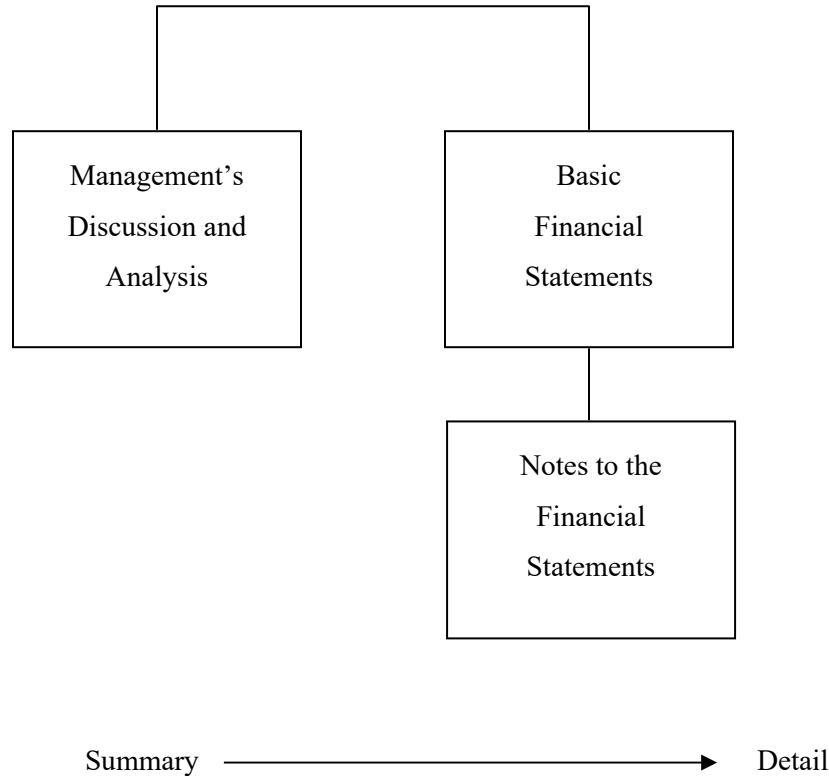
The second section of the basic financial statements is the notes to the financial statements that explain in more detail some of the data contained in the financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. After the notes to the financial statements, supplemental information is provided to show how Cleveland County Water's actual revenue and expense amounts compare to amounts budgeted. Supplemental information can be found on pages 37 to 69 of these financial statements.

Accounting Change

During fiscal year 2025, Cleveland County Water implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. This standard requires governments to recognize a liability for certain types of compensated absences when the leave is earned, rather than when it is taken. The application of GASB 101 resulted in a restatement of \$401,621 to the beginning net position of the business-type activities. As a result, amounts reported in Management's Discussion and Analysis for fiscal year 2025 are not comparable to those reported for fiscal year 2024, which have not been restated in the prior year comparative information. See Note 4 for additional information regarding the impact of this standard on the current year's financial statements.

Required Components of Annual Financial Report

Figure 1



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

Budget Highlights

Cleveland County Water's annual balanced budget is prepared on the modified accrual basis of accounting in accordance with the Budget and Fiscal Control Act of North Carolina General Statutes.

During the course of fiscal year 2025, Cleveland County Water made two amendments to its formal budget. The activities of Cleveland County Water are monitored by the Finance Director for any shortfalls of revenue or overspending. Income and expense statements along with comparative graphs are presented by either the General Manager or Finance Director at each board meeting.

Financial Analysis

The following is a summary of net position:

Cleveland County Water's Net Position

Figure 2

	June 30	
	2025	2024
Current and other assets	\$ 21,987,245	\$ 28,519,865
Capital assets	82,782,661	61,159,289
Deferred outflows of resources	<u>1,529,029</u>	<u>1,737,803</u>
Total assets and deferred outflows of resources	<u>106,298,935</u>	<u>91,416,957</u>
Long-term liabilities outstanding	31,354,075	31,401,224
Other liabilities	6,198,419	6,182,484
Deferred inflows of resources	<u>610,136</u>	<u>736,288</u>
Total liabilities and deferred inflows of resources	<u>38,162,630</u>	<u>38,319,996</u>
Net position:		
Net investment in capital assets	60,761,228	45,614,071
Unrestricted – Board-designated	4,092,752	3,416,861
Unrestricted	<u>3,282,325</u>	<u>4,066,029</u>
Total Net Position	<u><u>\$ 68,136,305</u></u>	<u><u>\$ 53,096,961</u></u>

Cleveland County Water's net position increased by approximately \$15,441,000 for the year ended June 30, 2025. Net investment in capital assets increased by approximately \$15,147,000 during the year ended June 30, 2025. Cleveland County Water funded the majority of the increase for the year ended June 30, 2025 through operations and general revenues as well as large ARP grants to fund capital projects.

Unrestricted net position represents the excess of assets and deferred outflows over liabilities and deferred inflows that Cleveland County Water can utilize in future periods. Unrestricted net position decreased for the year ended June 30, 2025, from approximately \$7,483,000 in 2024 to approximately \$7,375,000 in 2025.

The following is a summary of changes in net position:

Cleveland County Water's Changes in Net Position

Figure 3

	<u>For the Years Ended June 30</u>	
	<u>2025</u>	<u>2024</u>
Revenues:		
Operating revenue	\$ 9,866,511	\$ 9,365,306
Non-operating revenue	<u>16,358,871</u>	<u>7,143,220</u>
Total Revenues	<u>26,225,382</u>	<u>16,508,526</u>
Expenses:		
Operating expenses	10,559,071	9,681,918
Interest on long-term debt	223,294	215,938
Non-operating expenses	<u>2,052</u>	<u>1,615</u>
Total Expenses	<u>10,784,417</u>	<u>9,899,471</u>
Change in Net Position	<u>15,440,965</u>	<u>6,609,055</u>
Net Position, July 1	53,096,961	46,487,906
Restatement	<u>(401,621)</u>	<u>-</u>
Net Position, July 1 as restated	<u>52,695,340</u>	<u>46,487,906</u>
Net Position, June 30	<u><u>\$ 68,136,305</u></u>	<u><u>\$ 53,096,961</u></u>

Included in non-operating revenues is approximately \$1,133,000 in special district ad valorem taxes for the year ended June 30, 2025. Cleveland County Water has established a levy of \$0.02 per \$100 of property value. Such taxes are billed, collected, and administered by Cleveland County, North Carolina. Operating revenue of Cleveland County Water represents various customer charges for services. Operating revenue increased in 2025, from approximately \$9,365,000 in 2024 to approximately \$9,867,000 in 2025. Operating expenses increased approximately \$877,000 for the year ended June 30, 2025.

Capital Assets

Cleveland County Water's investment in capital assets net of accumulated depreciation was approximately \$82,783,000 as of June 30, 2025. During 2025, construction activity related primarily to plant and distribution improvements and equipment. Of the total 2025 additions of approximately \$27,821,000, approximately 25.6% was expended for water and plant distribution systems, 64.6% was expended for construction in progress, and the remaining 9.8% was related to land purchases, buildings, and plant and distribution equipment.

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

Cleveland County Water's Capital Assets

Figure 4

	June 30	
	2025	2024
Land and land easements	\$ 1,576,668	\$ 1,535,790
Construction in progress	21,534,346	7,666,071
Land improvements and tank sites	503,576	515,069
Plant and distribution system	39,788,613	34,576,452
Buildings – administrative	6,282,325	6,418,740
Administrative equipment	33,744	39,770
Plant and distribution equipment	10,326,492	10,292,767
IT/GIS Equipment	37,663	-
Parks and Recreation	2,048,628	-
Meter services equipment	101,051	2,771
Maintenance building	529,616	80,565
Leased assets	19,939	26,191
Total	<u>\$ 82,782,661</u>	<u>\$ 61,154,186</u>

Other Long-Term Liabilities

Cleveland County Water continues to pay down the balance of long-term liabilities relating to loans and general obligation bonds. As of June 30, 2025, debt consists of notes from direct borrowings and installment purchases. There was an additional borrowing in the 2025 year of \$661,250 for the purchase of equipment. Long-term debt decreased by approximately \$9,000 in the year ended June 30, 2025. Cleveland County Water's total debt outstanding, as of June 30, 2025 was approximately \$27,599,000. The remaining portion of long-term liabilities consists of leases totaling approximately \$22,000 as of June 30, 2025; net pension liability totaling approximately \$1,615,000 as of June 30, 2025; other post-employment benefits liability totaling approximately \$2,794,000 as of June 30, 2025; and compensated absences liability totaling approximately \$688,000 as of June 30, 2025.

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

Economic Factors and Next Year's Budget

Cleveland County Water is located in and serves residents of Cleveland County, North Carolina. Economic growth in this area has been slow since the recession of 2008 and is projected to continue slow growth in the near future. Cleveland County Water is not projecting a significant increase in the water demands of the County, but continues to plan for steady growth over time and continued maintenance and improvements of the plant and distribution system. Cleveland County Water is currently working on an interconnection with a nearby municipalities that will lead to intermittent increases of water supply/sale as needed between the two.

Over the past few years, Cleveland County Water has seen continued increases in the costs of water pipeline materials, thus a continued higher amount for that line item in the FY 2026 budget. The FY 2026 budget for customer tap fees was increased, which was directly related to the price increases with the specific materials associated with this function.

Requests for Information

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

Finance Director
Cleveland County Water
P.O. Box 8
Shelby, NC 28151

CLEVELAND COUNTY WATER

STATEMENT OF NET POSITION PROPRIETARY FUND JUNE 30, 2025

	<u>2025</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 5,774,308
Investments	4,092,752
Accounts receivable – customers, net	1,146,856
Taxes receivable	56,072
Grants and awards receivable	2,327,225
Other receivables	572,940
Inventories	486,775
Restricted cash and cash equivalents	<u>7,530,317</u>
Total current assets	<u>21,987,245</u>
Non-current assets:	
Capital assets and right to use assets:	
Land and land easements	1,576,668
Construction in progress	21,534,346
Land improvements and tank sites	646,507
Plant and distribution	87,524,062
Meter services equipment	245,464
Buildings	7,310,404
Equipment	337,958
Less: accumulated depreciation	(36,412,687)
Right to use assets	31,129
Less: accumulated amortization	<u>(11,190)</u>
Capital assets and right to use assets, net	<u>82,782,661</u>
Total non-current assets	<u>82,782,661</u>
Total assets	<u>104,769,906</u>
Deferred Outflows of Resources:	
Pension deferrals	910,270
OPEB deferrals	<u>618,759</u>
Total deferred outflows of resources	<u>1,529,029</u>

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

CLEVELAND COUNTY WATER

STATEMENT OF NET POSITION PROPRIETARY FUND JUNE 30, 2025

	<u>2025</u>
Liabilities:	
Current liabilities:	
Current portion of long-term debt	888,449
Current portion of installment purchase financing	124,724
Current portion of lease liability	5,836
Accounts payable	2,919,780
Accrued compensation	71,737
Compensated absences	343,765
Accrued interest on long-term debt	41,264
Other payables	18,745
Advance from grantor	1,000,000
Liability payable from restricted assets:	
Customer deposits	<u>784,119</u>
Total current liabilities	<u>6,198,419</u>
Other non-current liabilities:	
Long-term debt	26,049,273
Installment purchase financing	536,526
Lease liability	15,705
Compensated absences	343,766
Net pension liability	1,615,256
Total OPEB liability	<u>2,793,549</u>
Total other non-current liabilities	<u>31,354,075</u>
Total liabilities	<u>37,552,494</u>
Deferred Inflows of Resources:	
Unavailable water sales	125,797
Pension deferrals	41,790
OPEB deferrals	<u>442,549</u>
Total deferred inflows of resources	<u>610,136</u>
Net Position:	
Net investment in capital assets	60,761,228
Unrestricted – Board-designated	4,092,752
Unrestricted	<u>3,282,325</u>
Total net position	<u>\$ 68,136,305</u>

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

CLEVELAND COUNTY WATER

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2025**

	<u>2025</u>
Operating Revenues:	
Water charges	\$ 9,461,094
Tap connection charges	<u>405,417</u>
Total operating revenues	<u>9,866,511</u>
Operating Expenses:	
Salaries and employee benefits	4,642,253
Administrative	1,240,331
Water plant	1,164,627
Water line maintenance	1,236,641
Meter services	59,739
Greenway	58,549
Other operating expenses	40,864
Depreciation and amortization	<u>2,116,067</u>
Total operating expenses	<u>10,559,071</u>
Operating income (loss)	<u>(692,560)</u>
Non-Operating Income (Expenses):	
Special district ad valorem tax	1,132,645
Restricted intergovernmental	14,041,566
Investment earnings	462,085
Lease revenue	4,502
Interest revenue – leases	260
Local option sales tax	471,821
Miscellaneous income	170,013
Gain (loss) on sale of capital assets	75,979
Interest on long-term debt	(223,294)
Interest expense – leases	<u>(2,052)</u>
Total non-operating income	<u>16,133,525</u>
Change in net position	<u>15,440,965</u>
Net Position:	
Beginning of year, July 1	53,096,961
Restatement	<u>(401,621)</u>
Beginning of year - July 1, restated	<u>52,695,340</u>
End of year, June 30	<u><u>\$ 68,136,305</u></u>

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

CLEVELAND COUNTY WATER

STATEMENT OF CASH FLOWS PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2025

	<u>2025</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 9,776,855
Cash paid for goods and services	(4,070,287)
Cash paid to employees and benefits	<u>(4,475,879)</u>
Net cash provided (used) by operating activities	<u>1,230,689</u>
 Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(23,754,272)
Proceeds from disposal of capital assets	85,709
Proceeds from long-term debt	661,250
Principal paid on long-term debt	(669,923)
Principal paid on leases	(5,523)
Interest paid on long-term debt & leases	(219,246)
Special district ad valorem tax	1,132,201
Federal and state grants	15,468,804
Non-operating revenues	<u>647,035</u>
Net cash provided (used) by capital and related financing activities	<u>(6,653,965)</u>
 Cash Flows from Investing Activities:	
Interest received	<u>462,085</u>
 Net change in cash and cash equivalents	(4,961,191)
 Cash and Cash Equivalents:	
Beginning of year, July 1	<u>22,358,568</u>
 End of year, June 30	<u><u>\$ 17,397,377</u></u>

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

CLEVELAND COUNTY WATER

STATEMENT OF CASH FLOWS PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2025

	<u>2025</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (692,560)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	2,116,067
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
Accounts receivable – customers, net	60,911
Other receivables	(121,023)
Inventories	177,093
Prepaid expenses	23,100
Deferred outflows of resources – pensions	100,889
Deferred outflows of resources – OPEB	107,885
Accounts payable and other payables	(469,729)
Accrued compensation	11,525
Compensated absences	11,964
Customer deposits	9,400
Net pension liability	(314)
OPEB liability	12,415
Deferred inflows of resources – unavailable water sales	(38,944)
Deferred inflows of resources – pensions	(29,840)
Deferred inflows of resources – OPEB	(48,150)
Total adjustments	<u>1,923,249</u>
Net cash provided (used) by operating activities	<u>\$ 1,230,689</u>

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

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CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

Cleveland County Water was established under North Carolina General Statute (“G.S”) 130A-47 to provide water services to the citizens of Cleveland County. Cleveland County Water is governed by a seven (7) member board of commissioners. For financial reporting purposes, Cleveland County Water includes all funds over which it exercises control. No agencies, boards, commissions, or other authorities are controlled by or are financially accountable to Cleveland County Water. Accordingly, there are no entities which meet the requirements of a reportable component unit.

B. Basis of Presentation

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

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

Cleveland County Water reports one fund type – Proprietary Fund.

Enterprise Fund

The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Cleveland County Water has one Enterprise Fund – the Water Fund.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

C. Measurement Focus and Basis of Accounting

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of Cleveland County Water's Enterprise Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Data

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

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

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

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

Deposits and Investments

All deposits of the District are made in Board-designated official depositories and are secured as required by G.S. 159-31.

Cleveland County Water may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the District may establish time deposit accounts such as money market accounts and certificates of deposit.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

State law [G.S. 159-30] authorizes Cleveland County Water to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the state of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high-quality issues of commercial paper and bankers' acceptances; and mutual fund shares when the mutual fund is certified by the Local Government Commission.

Cleveland County Water's investments are generally reported at fair value. The North Carolina Capital Management Trust (NCCMT) Government Portfolio is a SEC-registered money market mutual fund that is certified by the Local Government Commission under the provisions of G.S. 159-30(c)(8) and the North Carolina Administrative Code. The Government Portfolio is a 2a7 fund that invests in treasuries, government agencies, and repurchase agreements collateralized by treasuries. It is rated AAAM by S&P and AAAMf by Moody's Investor Services and reported at fair value.

Cash and Cash Equivalents

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

Restricted Assets

Customer deposits held by Cleveland County Water before any services were supplied are restricted to the service for which the deposits were collected. The unexpended debt proceeds are classified as restricted because their use is restricted to the purpose for which the debt was awarded. Grant revenue received before the earning process is complete is restricted for the intended purpose of the grant until the requirements of the grant are met.

	<u>2025</u>
Customer deposits	\$ 784,119
Unspent debt proceeds	5,599,080
Unspent grant proceeds	1,000,000
USDA debt service reserve	34,985
USDA SLA reserve	<u>112,133</u>
Total restricted cash	<u>\$ 7,530,317</u>

Receivables

Due to the dates customer meters are read, billings lag behind actual consumer usage each month. Estimated amounts for this usage which are unbilled at fiscal year-end are recorded by Cleveland County Water as revenue. Unbilled revenues totaled \$505,979 as of June 30, 2025.

Cleveland County Water's grants and awards receivable from various grantor agencies for reimbursements not received at year-end totaled \$2,327,225 as of June 30, 2025.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Allowance for Doubtful Accounts

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

Inventory and Prepaid Items

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

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

Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment are depreciated using the straight-line method by groups or classes of property over the following expected service lives:

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

Right to Use Assets

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

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Deferred Outflows/Inflows of Resources

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

Compensated Absences

Cleveland County Water recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment. Based on the criteria listed, two types of leave qualify for liability recognition for compensated absences - *vacation* and *sick leave*. The liability for compensated absences is reported as incurred in the proprietary fund financial statements. The liability for compensated absences includes salary-related benefits, where applicable.

Vacation

Cleveland County Water's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment at the employee's current pay rate upon separation from employment.

Sick Leave

Cleveland County Water's policy permits employees to accumulate earned but unused sick leave. All sick leave lapses when employees leave the employment of Cleveland County Water, upon separation from service, no monetary obligation exists. However, a liability for estimated value of sick leave that will be used by employees as time off is included in the liability for compensated absences.

Long-Term Debt

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

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Net Position

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

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

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

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

F. Operating Revenues and Expenses

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

G. Management Estimates

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

H. Defined Benefit Pension Plan

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

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

2. Details on All Funds and Account Groups

A. Assets

Deposits

All of Cleveland County Water's deposits are either insured or collateralized by using one of two (2) methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by Cleveland County Water's agent in Cleveland County Water's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the state Treasurer's agent in the name of the state Treasurer. Since the state Treasurer is acting in a fiduciary capacity for Cleveland County Water, these deposits are considered to be held by Cleveland County Water's agent in Cleveland County Water's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the state Treasurer the adequacy of their pooled collateral covering uninsured deposits. The state Treasurer does not confirm this information with Cleveland County Water or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for Cleveland County Water under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the state Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

Cleveland County Water has no formal policy regarding custodial credit risk for deposits, but relies on the state Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance.

Cleveland County Water complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

As of June 30, 2025, Cleveland County Water's deposits had a carrying amount of \$13,302,059 and a bank balance of \$13,291,355. Of the June 30, 2025 bank balance, \$500,000 was covered by Federal Depository Insurance and \$12,791,355 was covered by collateral held under the pooling method. Cleveland County Water had \$2,566 cash on hand as of June 30, 2025.

Investments

As of June 30, 2025, Cleveland County Water had \$4,092,752 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAm by Standard and Poor's and AAAmf by Moody's Investor Service. Cleveland County Water has no policy regarding credit risk.

CLEVELAND COUNTY WATER
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

Board-Designated Reserves

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

	<u>2025</u>
Capital Reserve (NCCMT)	<u>\$ 4,092,752</u>
Total Board-designated reserves	<u><u>\$ 4,092,752</u></u>

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

Receivables – Allowance for Doubtful Accounts

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

	<u>2025</u>
Accounts receivable - customers - allowance for doubtful accounts	<u><u>\$ 382,710</u></u>

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Capital Assets

Capital asset activity for Cleveland County Water for the year ended June 30, 2025, is as follows:

	Balance July 1, 2024	Increases	Decreases	Transfers	Balance June 30, 2025
Non-Depreciable Assets:					
Land	\$ 1,535,790	\$ 40,878	\$ -	\$ -	\$ 1,576,668
Construction in progress	7,666,071	17,935,355	-	(4,067,080)	21,534,346
Total non-depreciable assets	<u>9,201,861</u>	<u>17,976,233</u>	<u>-</u>	<u>(4,067,080)</u>	<u>23,111,014</u>
Depreciable Assets:					
Land improvements and tank sites	646,507	-	-	-	646,507
Plant and distribution system	64,961,077	2,511,578	-	4,067,080	71,539,735
Buildings - administrative	6,686,173	-	-	-	6,686,173
Administrative equipment	295,321	-	-	-	295,321
IT/GIS Equipment	-	42,637	-	-	42,637
Parks and Recreation	-	2,119,270	-	-	2,119,270
Plant and distribution equipment	13,555,062	532,670	(222,675)	-	13,865,057
Meter services equipment	177,912	111,587	(44,035)	-	245,464
Maintenance building	163,934	460,297	-	-	624,231
Total depreciable assets	<u>86,485,986</u>	<u>5,778,039</u>	<u>(266,710)</u>	<u>4,067,080</u>	<u>96,064,395</u>
Less Accumulated Depreciation:					
Land improvements and tank sites	131,438	11,493	-	-	142,931
Plant and distribution system	30,384,625	1,366,497	-	-	31,751,122
Buildings - administrative	267,433	136,415	-	-	403,848
Administrative equipment	255,551	6,026	-	-	261,577
IT/GIS Equipment	-	4,974	-	-	4,974
Parks and Recreation	-	70,642	-	-	70,642
Plant and distribution equipment	3,262,295	489,214	(212,944)	-	3,538,565
Meter services equipment	175,141	13,308	(44,036)	-	144,413
Maintenance building	83,369	11,246	-	-	94,615
Total accumulated depreciation	<u>34,559,852</u>	<u>2,109,815</u>	<u>(256,980)</u>	<u>-</u>	<u>36,412,687</u>
Total depreciable assets, net	<u>51,926,134</u>	<u>3,668,224</u>	<u>(9,730)</u>	<u>4,067,080</u>	<u>59,651,708</u>
Right to Use Assets:					
Leased equipment	31,129	-	-	-	31,129
Less Accumulated Amortization:					
Leased equipment	4,938	6,252	-	-	11,190
Right to use assets, net	<u>26,191</u>	<u>(6,252)</u>	<u>-</u>	<u>-</u>	<u>19,939</u>
Capital and right to use assets, net	<u>\$ 61,154,186</u>				<u>\$ 82,782,661</u>

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Net Investment in Capital Assets

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

	<u>2025</u>
Capital assets, net	\$ 82,782,661
Total debt, gross	(27,620,513)
Add back:	
Unspent debt proceeds	<u>5,599,080</u>
Net investment in capital assets	<u>\$ 60,761,228</u>

Construction Commitments

<u>Name of Project</u>	<u>Estimated Completion</u>	<u>Project Authorization</u>	<u>Remaining Commitment</u>
Cherryville Interconnect	Fall 2025	\$ 3,000,000	\$ 949,073
Weir	Spring 2026	12,035,000	4,627,130
Flocc/Sed	Spring 2026	7,241,300	3,747,212
Waco Booster Pump Station	Spring 2026	1,259,234	436,440
Union Bank Rehab	Fall 2025	415,000	7,365
Polkville Tank	Fall 2025	5,501,225	1,114,591

B. Liabilities

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. Cleveland County Water is a participating employer in the statewide LGERS, a cost-sharing multiple-employer defined benefit pension plan administered by the state of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (“LEOs”) of participating local governmental entities, firefighters and rescue squad workers. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of thirteen (13) members – nine (9) appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The LGERS is included in the Annual Comprehensive Financial Report for the state of North Carolina. The State's Annual Comprehensive Financial Report includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Benefits Provided. LGERS provides retirement, disability 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. General employee plan members are eligible to retire with unreduced 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. General employee plan members are eligible to retire with reduced 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 and rescue squad workers). Disabled members may qualify for disability benefits at earlier ages. Survivor benefits are available to eligible beneficiaries of general employee plan 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 workers 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 in lieu of the return of the member's contributions that is generally available to beneficiaries of deceased members. The plan does not provide for automatic post-retirement benefit increases. Cost of living benefit increases are contingent upon investment gains of the plan at the discretion of the LGERS Board of Trustees, except as authorized by the General Assembly.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Cleveland County Water's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. Cleveland County Water's contractually required contribution rate for the year ended June 30, 2025 was 13.60% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from Cleveland County Water were \$388,511 for the year ended June 30, 2025.

Refunds of Contributions. Cleveland County Water employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members include interest (currently 4% per year) regardless of the number of years of retirement service credit or for the reason for separation from service. State law requires a sixty (60)-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

As of June 30, 2025, Cleveland County Water reported a liability of \$1,615,256 for its proportionate share of the net pension liability. The current year's net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2023. The total pension liability was then rolled forward to the measurement date of June 30, 2024 utilizing update procedures incorporating the actuarial assumptions. Cleveland County Water's proportion of the net pension liability was based on a projection of Cleveland County Water's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

employers, actuarially determined. As of June 30, 2024 (measurement date), Cleveland County Water's proportion was 0.02396%, which was a decrease of 0.00043% from its proportion measured as of June 30, 2023.

For the year ended June 30, 2025, Cleveland County Water recognized pension expense of \$459,248. As of June 30, 2025, Cleveland County Water reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 283,054	\$ 1,903
Net difference between projected and actual earnings on pension plan investments	219,593	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	19,112	39,887
Employer contributions subsequent to the measurement date	388,511	-
Total	<u>\$ 910,270</u>	<u>\$ 41,790</u>

\$388,511 reported as deferred outflows of resources related to pensions resulting from Cleveland County Water's contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2026. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2026	\$ 138,860
2027	310,808
2028	55,131
2029	<u>(24,830)</u>
Total	<u>\$ 479,969</u>

Actuarial Assumptions. The total pension liability in the December 31, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

The actuarial assumptions and methods used in the December 31, 2023 actuarial valuation were based on the results of an actuarial experience study prepared as of December 31, 2019 and adopted by the Board of Trustees on January 28, 2021.

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

The projected long-term investment returns, and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income returns projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis.

These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	33.0%	2.4%
Global equity	38.0%	6.9%
Real estate	8.0%	6.0%
Alternatives	8.0%	8.6%
Opportunistic fixed income	7.0%	5.3%
Inflation sensitive	<u>6.0%</u>	4.3%
Total	<u>100%</u>	

The information above is based on 30-year expectations developed with an investment consulting firm. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 2.38%. Return projections do not include any excess return expectations over benchmark averages for public markets. All rates of return and inflation are annual amounts.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

Sensitivity of Cleveland County Water's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents Cleveland County Water's proportionate share of the net pension liability calculated using the discount rate of 6.50%, as well as what Cleveland County Water's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Authority's proportionate share of the net pension liability (asset)	<u>\$ 2,862,281</u>	<u>\$ 1,615,256</u>	<u>\$ 589,406</u>

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

Other Post-Employment Benefits (OPEB)

Healthcare Benefits

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

Benefits Provided. Cleveland County Water pays the full cost of coverage for the benefits paid to qualified retirees under the plan. Cleveland County Water has chosen to fund the healthcare benefits on a pay as you go basis. Cleveland County Water obtains healthcare coverage through private insurers. Employees hired prior to January 1, 2017 who retire under the provisions of the North Carolina Local Government Employees' Retirement System ("NCLGERS") with thirty (30) or more years of service with Cleveland County Water or reach age fifty-five (55) with twenty (20) or more years of service (with the last five (5) being continuous) with Cleveland County Water are eligible to participate in Cleveland County Water's group insurance plan upon retirement. Employees hired after the effective date of January 1, 2017 shall be required to have twenty-five (25) or more years of continuous and uninterrupted full-time service. Employees hired after the

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

effective date of January 1, 2017, as well as employees hired prior to these effective dates that have twenty-five (25) or more years of continuous and uninterrupted full-time service may continue on Cleveland County Water health insurance plan without charge to the employee until retired employee reaches Medicare eligibility. Health insurance and prescription drug coverage will be paid by Cleveland County Water until eligible retirees reach the age of sixty-five (65). Dependents are not eligible for coverage.

Membership of the health care benefit plan consisted of the following as of June 30, 2023, the date of the latest actuarial valuation:

Members	
Inactive members or beneficiaries currently receiving benefits	7
Active members	39
Total	46

Total OPEB Liability

Cleveland County Water's total OPEB liability of \$2,793,549 was measured as of June 30, 2024 and was determined by an actuarial valuation as of June 30, 2023.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	0.75%
Wage Inflation	3.25%
Salary increases, including wage inflation:	
General Employees	3.25 - 8.41%
Municipal Bond Index Rate (Discount rate):	
Prior measurement date	3.65%
Measurement date	3.93%
Healthcare cost trend rates:	
Pre-Medicare	7.00% for 2023, decreasing to an ultimate rate of 4.50% by 2033

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

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Changes in the Total OPEB Liability

Total OPEB Liability:

Balance at July 1, 2024	\$ 2,781,134
Changes for the year:	
Service cost at end of year	87,127
Interest	102,372
Difference between expected and actual experience	21,821
Changes of assumptions or other inputs	(70,643)
Benefit payments and implicit subsidy credit	(128,262)
Net change in total OPEB liability	12,415
Balance at June 30, 2025	\$ 2,793,549

Changes in assumptions and other inputs reflect a change in the discount rate from 3.65% to 3.93%.

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

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period January 1, 2015 – December 31, 2019, adopted by the LGERS Board.

The remaining actuarial assumptions (e.g., initial per capita costs, healthcare cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2023 valuation were based on a review of recent plan experience done concurrently with the June 30, 2023 valuation.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of Cleveland County Water, as well as what Cleveland County Water's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.93%) or 1-percentage-point higher (4.93%) than the current discount rate:

	1% Decrease (2.93%)	Current Discount Rate (3.93%)	1% Increase (4.93%)
Total OPEB liability	\$ 3,056,106	\$ 2,793,549	\$ 2,558,342

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the total OPEB liability of Cleveland County Water, as well as what Cleveland County Water's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current	1% Increase
Total OPEB liability	\$ 2,502,192	\$ 2,793,549	\$ 3,132,681

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

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

For the year ended June 30, 2025, Cleveland County Water recognized OPEB expense of \$204,081. As of June 30, 2025, Cleveland County Water reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 115,883	\$ 129,814
Changes of assumptions or other inputs	369,316	312,735
Benefit payments and plan administrative expenses made subsequent to the measurement date	<u>133,560</u>	<u>-</u>
Total	<u><u>\$ 618,759</u></u>	<u><u>\$ 442,549</u></u>

\$133,560 reported as deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2026.

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

<u>Year Ending June 30</u>	<u>Amount</u>
2026	\$ 18,054
2027	30,018
2028	24,833
2029	(12,942)
2030	(13,344)
Thereafter	<u>(3,969)</u>
Total	<u><u>\$ 42,650</u></u>

Deferred Compensation Plan

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

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

Supplemental Retirement Income Plan

Cleveland County Water contributes to the Supplemental Retirement Income Plan (“the Plan”), a defined contribution pension plan administered by the Department of State Treasurer and Prudential Retirement. The Plan provides retirement benefits to employees of Cleveland County Water. Cleveland County Water contributes an amount equal to the employee contribution, up to 5% of each eligible employee’s salary. Also, the employees may make voluntary contributions to the Plan. Cleveland County Water’s contributions to the Plan for the year ended June 30, 2025 were \$102,568. No amounts were forfeited.

Risk Management

Cleveland County Water is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Cleveland County Water carries commercial insurance for all risks of loss, including employee health and accident insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the last three (3) fiscal years. Currently, Cleveland County Water does not have flood insurance.

In accordance with G.S. 159-29, Cleveland County Water’s employees that have access to \$100 or more at any given time of Cleveland County Water’s funds are performance bonded through a commercial surety bond. Effective with the bond renewal on July 1, 2024, the bonding for the Finance Officer was \$1,000,000 in order to comply with S.L. 2022-53, Section 9(a).

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

Long-Term Debt

Leases

Cleveland County Water has entered into agreements to lease certain equipment. The lease agreements qualify as other than short-term leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The first agreement was executed on July 1, 2021, to lease postage equipment and requires 19 quarterly payments of \$145. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 3.25%. As a result of the lease, Cleveland County Water has recorded a right to use asset with a net book value of \$401 at June 30, 2025.

The second agreement was executed on October 4, 2023, to lease a copier and requires 62 monthly payments of \$583. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 8.5%. As a result of the lease, Cleveland County Water has recorded a right to use asset with a net book value of \$19,538 at June 30, 2025.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

The future minimum lease obligations of these minimum lease payments as of June 30, 2025 are as follows:

Year Ending June 30	Business-Type Activities		
	Principal Payments	Interest Payments	Total
2026	\$ 5,836	\$ 1,587	\$ 7,423
2027	6,809	1,109	7,918
2028	8,896	674	9,570
Total	<u>\$ 21,541</u>	<u>\$ 3,370</u>	<u>\$ 24,911</u>

Installment Purchases

Cleveland County Water has entered into an agreement to finance certain equipment. The finance agreement qualifies as a financed purchase for accounting purposes due to the transfer of ownership of the underlying asset. There are no termination provisions in the finance agreement. The agreement was executed on February 4, 2025 to purchase certain equipment and vehicles for five (5) annual payments of \$148,000, including interest at a rate of 3.84%. The balance of the financed amount was \$661,250 as of June 30, 2025. In this agreement, title passes to Cleveland County Water at the end of the finance term.

The future minimum obligations on the installment purchases as of June 30, 2025 are as follows:

Year Ending June 30	Principal	Interest	Total
2026	\$ 124,724	\$ 23,276	\$ 148,000
2027	126,648	20,603	147,251
2028	131,511	15,739	147,250
2029	136,561	10,689	147,250
2030	141,806	5,445	147,251
Total	<u>\$ 661,250</u>	<u>\$ 75,752</u>	<u>\$ 737,002</u>

Notes From Direct Borrowings

As of December 19, 2018, Cleveland County Water had been approved for a twenty (20)-year term loan from the North Carolina Drinking Water State Revolving Fund ("DWSRF") in the amount of \$3,590,342 for Lattimore Area Drinking Water Improvements project. Principal payment of \$168,462 is due on May 1st of each year and two (2) interest payments at a rate of 1.53% are due on May 1st and November 1st of each year, through May 1, 2040. This loan contains no collateral or termination provisions. The balance of the loan amount was \$2,526,935 as of June 30, 2025.

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

As of March 25, 2020, Cleveland County Water had been approved for a twenty (20)-year term loan from the DWSRF in the amount of \$7,560,000 for construction of Clearwell and High Service Pump Station. The repayable loan portion will be repaid at an interest rate of 2.16%. This loan contains no collateral or termination provisions. The balance of the loan amount was \$7,554,787 as of June 30, 2025.

As of February 16, 2021, Cleveland County Water had been approved for a forty (40)-year loan from the state and Area Office of USDA Rural Development Agency in the amount of \$4,997,000 for the construction of the new operations center. The loan will be repaid at an interest rate of 1.75%. The loan is secured by Water Revenue Bonds. Principal and interest payments will be due on the 1st day of June each year. The outstanding note contains a provision that in an event of default, the Government has the option to declare the entire principal and any outstanding and accrued interest immediately due and payable and take possession of the facility. The balance of the loan amount was \$4,821,000 as of June 30, 2025.

As of April 18, 2024, Cleveland County Water had been approved for a forty (40)-year loan from the state and Area Office of USDA Rural Development Agency in the amount of \$12,035,000 for the construction of the WEIR Project. The loan will be repaid at an interest rate of 1.75%. The loan is secured by Water Revenue Bonds. Principal and interest payments will be due on the 1st day of June each year. The outstanding note contains a provision that in an event of default, the Government has the option to declare the entire principal and any outstanding and accrued interest immediately due and payable and take possession of the facility. The balance on the loan amount was \$12,035,000 as of June 30, 2025.

Year Ending June 30	Maturities	Interest	Total
2026	\$ 888,449	\$ 419,011	\$ 1,307,460
2027	894,129	406,436	1,300,565
2028	899,873	393,762	1,293,635
2029	904,683	380,987	1,285,670
2030	910,560	368,128	1,278,688
2031-2035	4,639,361	1,644,215	6,283,576
2036-2040	4,791,968	1,307,315	6,099,283
2041-2045	3,277,593	987,140	4,264,733
2046-2050	2,202,444	775,724	2,978,168
2051-2055	7,528,662	1,058,886	8,587,548
Total	<u>\$ 26,937,722</u>	<u>\$ 7,741,604</u>	<u>\$ 34,679,326</u>

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

During the year ended June 30, 2025, the following changes occurred in long-term liabilities:

	Balance			Balance	Due
	July 1, 2024	Additions	Retirements	June 30, 2025	Within
					One Year
Notes from direct borrowings	\$ 27,607,645	\$ -	\$ 669,923	\$ 26,937,722	\$ 888,449
Installment purchase - direct borrowing	-	661,250	-	661,250	124,724
Leases	27,064	-	5,523	21,541	5,836
Net pension liability	1,615,570	-	314	1,615,256	-
Total OPEB liability	2,781,134	12,415	-	2,793,549	-
Compensated absences*	675,567	11,964	-	687,531	343,765
Total	<u>\$ 32,706,980</u>	<u>\$ 685,629</u>	<u>\$ 675,760</u>	<u>\$ 32,716,849</u>	<u>\$ 1,362,774</u>

* - The change in compensated absences above is a net change for the year.

As of June 30, 2025, Cleveland County Water had a legal debt margin of \$425,636,628.

3. Interlocal Agreements

Cleveland County Water entered into an interlocal agreement for management of the Town of Fallston local water supply system. During the period from July 1, 2019 through June 30, 2059, Cleveland County Water will sell water service to the Town of Fallston and will manage and operate its water distribution system. The agreement may thereafter be renewed for additional ten (10) year terms. The annual payment for the water distribution system to be made to the Town of Fallston shall be used by the Town to satisfy the annual debt service payment to United States Department of Agriculture ("USDA"). The payment for the year ended June 30, 2025 was \$65,205. The ownership of Fallston water distribution system and customer base remains with the Town of Fallston.

4. Adjustments and Restatements of Beginning Balances

During the current year, Cleveland County Water implemented GASB Statement No. 101, *Compensated Absences*. In addition to the value of unused vacation time owed to employees upon separation of employment, Cleveland County Water now recognizes an estimated amount of sick leave earned as of year-end that will be used by employees as time off in future years as part of the liability for compensated absences. The effects of the change in accounting principle are summarized below in the "Restatement - GASB 101 implementation" column in the table below.

	Net Position		Net Position
	Balance June 30, 2024	Restatement	Balance June 30, 2024
	as Previously	GASB 101	as Restated/
	Reported	Implementation	Adjusted
Government-Wide:			
Business-type activities	<u>\$ 53,096,961</u>	<u>\$ (401,621)</u>	<u>\$ 52,695,340</u>
Proprietary Fund:			
Business-type activities	<u>\$ 53,096,961</u>	<u>\$ (401,621)</u>	<u>\$ 52,695,340</u>

CLEVELAND COUNTY WATER

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2025

5. Subsequent Event

Cleveland County Water has executed the letter of conditions and other related forms for the transfer and assumption of the Town of Fallston's water system financed by USDA Rural Development. In fiscal year 2026 Cleveland County Water will take ownership of Town of Fallston's public water supply system and assume the balance of the USDA debt at the time of transfer of ownership.

REQUIRED SUPPLEMENTARY INFORMATION

CLEVELAND COUNTY WATER

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

	Other Post-Employment Benefits			
	2025	2024	2023	2022
Total OPEB Liability				
Service cost at end of year	\$ 87,127	\$ 80,565	\$ 107,498	\$ 114,420
Interest	102,372	92,792	62,800	59,325
Differences between expected and actual experience	21,821	48,715	39,566	(276,887)
Changes of assumptions or other inputs	(70,643)	68,607	(380,764)	390,875
Benefit payments	(128,262)	(99,601)	(77,458)	(38,370)
Net change in total OPEB liability	12,415	191,078	(248,358)	249,363
Total OPEB liability, beginning	2,781,134	2,590,056	2,838,414	2,589,051
Total OPEB liability, ending	<u>\$ 2,793,549</u>	<u>\$ 2,781,134</u>	<u>\$ 2,590,056</u>	<u>\$ 2,838,414</u>
Covered-employee payroll	\$ 2,048,556	\$ 2,048,556	\$ 2,074,263	\$ 2,074,263
Total OPEB liability as a percentage of covered-employee payroll	136.37%	135.76%	124.87%	136.84%

Notes to Schedule:

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

Fiscal Year	Rate
2025	3.93%
2024	3.65%
2023	3.54%
2022	2.16%
2021	2.21%
2020	3.50%
2019	3.89%
2018	3.56%

CLEVELAND COUNTY WATER

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

	Other Post-Employment Benefits			
	2021	2020	2019	2018
Total OPEB Liability				
Service cost at end of year	\$ 83,067	\$ 77,056	\$ 79,869	\$ 86,685
Interest	77,540	72,386	64,789	55,140
Differences between expected and actual experience	14,144	112,461	(2,526)	(1,160)
Changes of assumptions or other inputs	305,153	46,744	(68,062)	(115,428)
Benefit payments	(46,044)	(28,272)	(37,988)	(36,504)
Net change in total OPEB liability	433,860	280,375	36,082	(11,267)
Total OPEB liability, beginning	2,155,191	1,874,816	1,838,734	1,850,001
Total OPEB liability, ending	<u>\$ 2,589,051</u>	<u>\$ 2,155,191</u>	<u>\$ 1,874,816</u>	<u>\$ 1,838,734</u>
Covered-employee payroll	\$ 1,840,036	\$ 1,840,036	\$ 1,623,976	\$ 1,623,976
Total OPEB liability as a percentage of covered-employee payroll	140.71%	117.13%	115.45%	113.22%

CLEVELAND COUNTY WATER

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

	Local Governmental Employees' Retirement System				
	2025	2024	2023	2022	2021
Employer's proportion of the net pension liability (asset)(%)	0.02396%	0.02439%	0.02607%	0.02867%	0.02999%
Employer's proportion of the net pension liability (asset)(\$)	\$ 1,615,256	\$ 1,615,570	\$ 1,470,720	\$ 439,682	\$ 1,071,670
Employer's covered payroll	\$ 2,485,104	\$ 2,197,044	\$ 2,203,325	\$ 2,102,757	\$ 2,101,669
Employer's proportionate share of of the net pension liability (asset) as a percentage of its covered payroll	65.00%	73.53%	66.75%	20.91%	50.99%
Plan fiduciary net position as a percentage of the total pension liability**	83.30%	82.49%	84.14%	95.51%	88.61%

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

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

CLEVELAND COUNTY WATER

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

	Local Governmental Employees' Retirement System				
	2020	2019	2018	2017	2016
Employer's proportion of the net pension liability (asset)(%)	0.03025%	0.03241%	0.02974%	0.03168%	0.03000%
Employer's proportion of the net pension liability (asset)(\$)	\$ 826,104	\$ 768,876	\$ 454,345	\$ 672,356	\$ 134,236
Employer's covered payroll	\$ 1,962,117	\$ 1,906,743	\$ 1,713,689	\$ 1,720,900	\$ 1,642,546
Employer's proportionate share of of the net pension liability (asset) as a percentage of its covered payroll	42.10%	40.32%	26.51%	39.07%	8.17%
Plan fiduciary net position as a percentage of the total pension liability**	90.86%	91.63%	94.18%	91.47%	98.09%

CLEVELAND COUNTY WATER

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

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Contractually required contribution	\$ 388,511	\$ 319,336	\$ 265,843	\$ 250,077	\$ 213,429
Contributions in relation to the contractually required contribution	<u>388,511</u>	<u>319,336</u>	<u>265,843</u>	<u>250,077</u>	<u>213,429</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered payroll	\$ 2,856,703	\$ 2,485,104	\$ 2,197,044	\$ 2,203,325	\$ 2,102,751
Contributions as a percentage of covered payroll	13.60%	12.85%	12.10%	11.35%	10.15%

CLEVELAND COUNTY WATER

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 188,100	\$ 152,064	\$ 143,006	\$ 124,242	\$ 114,784
Contributions in relation to the contractually required contribution	<u>188,100</u>	<u>152,064</u>	<u>143,006</u>	<u>124,242</u>	<u>114,784</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered payroll	\$ 2,101,669	\$ 1,962,117	\$ 1,906,743	\$ 1,713,689	\$ 1,720,900
Contributions as a percentage of covered payroll	8.95%	7.75%	7.50%	7.25%	6.67%

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**INDIVIDUAL FUND STATEMENTS AND
SCHEDULES**

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CLEVELAND COUNTY WATER

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP) – WATER FUND
FOR THE YEAR ENDED JUNE 30, 2025**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Operating Revenues:			
Water charges	\$ 8,840,516	\$ 9,422,150	\$ 581,634
Tap connection charges	420,000	405,417	(14,583)
Total operating revenues	<u>9,260,516</u>	<u>9,827,567</u>	<u>567,051</u>
Non-Operating Revenues:			
Special district ad valorem tax	1,126,000	1,132,645	6,645
Restricted intergovernmental	-	151,937	151,937
Investment earnings	30,000	466,847	436,847
Local option sales tax	335,000	471,821	136,821
Miscellaneous	192,405	160,795	(31,610)
Total non-operating revenues	<u>1,683,405</u>	<u>2,384,045</u>	<u>700,640</u>
Total revenues	<u>10,943,921</u>	<u>12,211,612</u>	<u>1,267,691</u>
Operating Expenditures:			
Salaries and employee benefits	<u>4,992,712</u>	<u>4,487,404</u>	<u>505,308</u>
Administration:			
Professional services	145,062	134,483	10,579
Telephone and utilities	26,780	26,330	450
Repairs and maintenance	153,050	128,373	24,677
Postage	4,000	3,576	424
Insurance and bonds	111,440	106,777	4,663
Sewer collections	242,620	242,576	44
Other departmental expenditures	640,235	599,244	40,991
Total administration	<u>1,323,187</u>	<u>1,241,359</u>	<u>81,828</u>
Water Plant:			
Professional services	34,700	33,080	1,620
Telephone and utilities	444,316	443,515	801
Repairs and maintenance	95,240	95,167	73
Materials and supplies	36,700	36,424	276
Chemicals	209,231	209,145	86
Contracted services	276,245	275,718	527
Other departmental expenditures	72,089	71,578	511
Total water plant	<u>1,168,521</u>	<u>1,164,627</u>	<u>3,894</u>

CLEVELAND COUNTY WATER

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP) – WATER FUND
FOR THE YEAR ENDED JUNE 30, 2025**

	Final Budget	Actual	Variance Over/Under
Water Line Maintenance:			
Telephone and utilities	84,698	80,963	3,735
Repairs and maintenance	66,550	60,898	5,652
Materials and supplies	773,415	769,846	3,569
Contracted services	192,600	179,903	12,697
Other departmental expenditures	153,989	145,031	8,958
Total water line maintenance	<u>1,271,252</u>	<u>1,236,641</u>	<u>34,611</u>
Meter Services:			
Fuel	28,000	25,020	2,980
Repairs and maintenance	11,318	11,172	146
Other departmental expenditures	<u>44,120</u>	<u>23,547</u>	<u>20,573</u>
Total meter services	<u>83,438</u>	<u>59,739</u>	<u>23,699</u>
Greenway:			
Professional services	70,000	18,636	51,364
Travel, meetings, schools	5,000	-	5,000
Advertising	9,855	-	9,855
Dept supplies & expenses	25,616	23,580	2,036
Land and area maintenance	<u>16,884</u>	<u>16,333</u>	<u>551</u>
Total greenway	<u>127,355</u>	<u>58,549</u>	<u>68,806</u>
Total operating expenses	<u>8,966,465</u>	<u>8,248,319</u>	<u>718,146</u>
Budgetary Appropriations:			
Debt Service:			
Debt principal	676,259	675,446	813
Interest	<u>225,417</u>	<u>225,346</u>	<u>71</u>
Total debt service	<u>901,676</u>	<u>900,792</u>	<u>884</u>
Capital outlay	<u>1,737,030</u>	<u>1,719,947</u>	<u>17,083</u>
Installment purchase financing issued	<u>661,250</u>	<u>661,250</u>	<u>-</u>
Total budgetary appropriations	<u>2,638,706</u>	<u>2,620,739</u>	<u>17,967</u>
Total expenditures and other uses	<u>10,943,921</u>	<u>10,207,808</u>	<u>736,113</u>

CLEVELAND COUNTY WATER

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP) – WATER FUND
FOR THE YEAR ENDED JUNE 30, 2025**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	2,003,804	\$ 2,003,804
Reconciling items:			
Capital outlay		1,719,947	
Debt principal		675,446	
Long-term debt issuance		(661,250)	
Change in deferred outflows of resources – pensions		(100,889)	
Change in deferred outflows of resources – OPEB		(107,885)	
Change in OPEB liability		(12,415)	
Change in net pension liability		314	
Change in deferred inflows of resources – unearned water sales		38,944	
Change in deferred inflows of resources – pensions		29,840	
Change in deferred inflows of resources – OPEB		48,150	
Change in deferred inflows of resources – leases		9,218	
Change in compensated absences		(11,964)	
Gain on sale of capital assets		75,979	
Depreciation expense		(2,109,815)	
Amortization expense - leases		(6,252)	
Capital project fund activity:			
Capital contributions - restricted intergovernmental revenues		13,889,629	
Capital projects expenses not capitalized		<u>(39,836)</u>	
Change in net position		<u>\$ 15,440,965</u>	

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

WATER IMPROVEMENTS PROJECTS - CENTRALLY LOCATED OPERATIONS CENTER

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

	Actual				
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Expenditures:					
Capital outlay:					
Professional services	\$ 501,414	\$ 499,552	\$ 1,860	\$ 501,412	\$ 2
Construction	6,043,321	5,669,514	373,807	6,043,321	-
Legal	28,400	28,400	-	28,400	-
Financing and interest	142,626	142,625	-	142,625	1
Total expenditures	<u>6,715,761</u>	<u>6,340,091</u>	<u>375,667</u>	<u>6,715,758</u>	<u>3</u>
Revenues over (under) expenditures	<u>(6,715,761)</u>	<u>(6,340,091)</u>	<u>(375,667)</u>	<u>(6,715,758)</u>	<u>3</u>
Other Financing Sources (Uses):					
Loan proceeds	4,997,000	4,997,000	-	4,997,000	-
Transfers in (out)	<u>1,718,761</u>	<u>453,036</u>	<u>-</u>	<u>453,036</u>	<u>(1,265,725)</u>
Total other financing sources (uses)	<u>6,715,761</u>	<u>5,450,036</u>	<u>-</u>	<u>5,450,036</u>	<u>(1,265,725)</u>
Revenues and other financing sources over (under) expenditures & other financing uses	<u>\$ -</u>	<u>\$ (890,055)</u>	<u>(375,667)</u>	<u>\$ (1,265,722)</u>	<u>\$ (1,265,722)</u>
Fund Balance:					
Beginning of year, July 1			<u>(890,055)</u>		
End of year, June 30			<u>\$ (1,265,722)</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

WATER IMPROVEMENTS PROJECTS - RAW WATER WEIR IMPROVEMENTS PROJECT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Expenditures:					
Capital outlay:					
Construction	\$ 10,172,297	\$ 365,750	\$ 6,771,750	\$ 7,137,500	\$ 3,034,797
Land acquisition	15,000	14,715	-	14,715	285
Professional services	1,881,703	1,025,063	322,834	1,347,897	533,806
Legal	35,000	22,500	-	22,500	12,500
Financing and interest	1,061,000	-	-	-	1,061,000
Total expenditures	13,165,000	1,428,028	7,094,584	8,522,612	4,642,388
Revenues over (under) expenditures	(13,165,000)	(1,428,028)	(7,094,584)	(8,522,612)	4,642,388
Other Financing Sources (Uses):					
Loan proceeds	9,000,000	9,000,000	-	9,000,000	-
Loan proceeds	3,035,000	3,035,000	-	3,035,000	-
Transfers in (out)	1,130,000	14,715	-	14,715	(1,115,285)
Total other financing sources (uses)	13,165,000	12,049,715	-	12,049,715	(1,115,285)
Revenues and other financing sources over (under) expenditures & other financing uses	\$ -	\$ 10,621,687	(7,094,584)	\$ 3,527,103	\$ 3,527,103
Fund Balance:					
Beginning of year, July 1			10,621,687		
End of year, June 30			\$ 3,527,103		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
WATER IMPROVEMENTS PROJECTS - FLOCCULATION AND
SEDIMENTATION IMPROVEMENTS PROJECT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
Restricted intergovernmental	\$ 4,225,650	\$ -	\$ 3,228,751	\$ 3,228,751	\$ (996,899)
Expenditures:					
Capital outlay:					
Construction	6,920,650	-	3,129,757	3,129,757	3,790,893
Engineering/administration	385,000	248,324	125,671	373,995	11,005
Total expenditures	7,305,650	248,324	3,255,428	3,503,752	3,801,898
Revenues over (under) expenditures	(3,080,000)	(248,324)	(26,677)	(275,001)	2,804,999
Other Financing Sources (Uses):					
NC Division of Water Quality Loan	2,750,000	-	-	-	(2,750,000)
Transfers in (out)	330,000	-	-	-	(330,000)
Total other financing sources (uses)	3,080,000	-	-	-	(3,080,000)
Revenues and other financing sources over (under) expenditures & other financing uses	\$ -	\$ (248,324)	(26,677)	\$ (275,001)	\$ (275,001)
Fund Balance:					
Beginning of year, July 1			(248,324)		
End of year, June 30			\$ (275,001)		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - LAWNDAL PARK PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
Grant Revenue – Town of Fallston	\$ 10,000	\$ 10,000	\$ -	\$ 10,000	\$ -
Grant Revenue – Duke Energy	25,000	25,000	-	25,000	-
Grant Revenue – DWR/NCDEQ	200,000	200,000	-	200,000	-
Grant Revenue – Cleveland County	60,000	60,000	-	60,000	-
Grant Revenue – Recreation Trails Program	100,000	100,000	-	100,000	-
Grant Revenue – Town of Lawndale - PARTF	415,000	415,000	-	415,000	-
Town of Lawndale	10,000	10,000	-	10,000	-
L&W Conservation Fund	500,000	500,000	-	500,000	-
Total revenues	<u>1,320,000</u>	<u>1,320,000</u>	<u>-</u>	<u>1,320,000</u>	<u>-</u>
Expenditures:					
Capital outlay:					
Construction	1,797,168	1,521,066	276,102	1,797,168	-
Engineering	<u>322,832</u>	<u>311,522</u>	<u>10,580</u>	<u>322,102</u>	<u>730</u>
Total expenditures	<u>2,120,000</u>	<u>1,832,588</u>	<u>286,682</u>	<u>2,119,270</u>	<u>730</u>
Revenues over (under) expenditures	(800,000)	(512,588)	(286,682)	(799,270)	730
Other Financing Sources (Uses):					
Transfers in (out)	<u>800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(800,000)</u>
Revenues and other financing sources over (under) expenditures & other financing uses	<u>\$ -</u>	<u>\$ (512,588)</u>	(286,682)	<u>\$ (799,270)</u>	<u>\$ (799,270)</u>
Fund Balance:					
Beginning of year, July 1			<u>(512,588)</u>		
End of year, June 30			<u>\$ (799,270)</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

WATER IMPROVEMENTS PROJECTS - BELLWOOD WATERLINES IMPROVEMENTS PROJECT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

	Actual				
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
Town of Bellwood	\$ 61,755	\$ 61,755	\$ -	\$ 61,755	\$ -
Expenditures:					
Capital outlay:					
Bellwood Loop Waterline Improvements	47,810	47,810	-	47,810	-
St. Peters Church Road Waterline Improvements	121,945	121,941	-	121,941	4
Lutz Road Waterline Improvements	70,855	70,850	-	70,850	5
Total expenditures	240,610	240,601	-	240,601	9
Revenues over (under) expenditures	(178,855)	(178,846)	-	(178,846)	9
Other Financing Sources (Uses):					
Transfers in (out)	178,855	163,256	-	163,256	(15,599)
Revenues and other financing sources over (under) expenditures & other financing uses	\$ -	\$ (15,590)	-	\$ (15,590)	\$ (15,590)
Fund Balance:					
Beginning of year, July 1			(15,590)		
End of year, June 30			\$ (15,590)		

CLEVELAND COUNTY WATER**ENTERPRISE FUND CAPITAL PROJECTS****WATER IMPROVEMENTS PROJECTS - CASAR LAWNDALE, SAND HILLS,****WILL DIXON WATER MAIN ARP PROJECT****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCE - BUDGET AND ACTUAL****FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
ARP Funds	\$ 6,398,360	\$ 1,930,536	\$ 4,175,498	\$ 6,106,034	\$ (292,326)
Expenditures:					
Capital outlay:					
Construction	5,748,360	1,460,625	4,068,099	5,528,724	219,636
Engineering	650,000	469,911	107,399	577,310	72,690
Total expenditures	6,398,360	1,930,536	4,175,498	6,106,034	292,326
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ -		

CLEVELAND COUNTY WATER

**ENTERPRISE FUND CAPITAL PROJECTS
 WATER IMPROVEMENTS PROJECTS - POLKVILLE TANK AND
 BOOSTER PUMP STATION ARP PROJECT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
ARP Funds	\$ 5,501,225	\$ 796,234	\$ 3,590,402	\$ 4,386,636	\$ (1,114,589)
Expenditures:					
Capital outlay:					
Land	35,100	35,099	-	35,099	1
Construction	5,067,925	443,565	3,552,608	3,996,173	1,071,752
Engineering	433,300	352,669	37,794	390,463	42,837
Total expenditures	5,536,325	831,333	3,590,402	4,421,735	1,114,590
Revenues over (under) expenditures	(35,100)	(35,099)	-	(35,099)	1
Other Financing Sources (Uses):					
Transfers in (out)	35,100	-	-	-	(35,100)
Revenues and other financing sources over (under) expenditures & other financing uses	\$ -	\$ (35,099)	-	\$ (35,099)	\$ (35,099)
Fund Balance:					
Beginning of year, July 1			(35,099)		
End of year, June 30			\$ (35,099)		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS

WATER IMPROVEMENTS PROJECTS - HENDRICK LAKE ARP PROJECT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
ARP Funds	\$ 456,300	\$ 157,400	\$ 196,866	\$ 354,266	\$ (102,034)
Expenditures:					
Capital outlay:					
Land	67,400	67,380	-	67,380	20
Engineering	456,300	157,400	196,866	354,266	102,034
Total expenditures	523,700	224,780	196,866	421,646	102,054
Revenues over (under) expenditures	(67,400)	(67,380)	-	(67,380)	20
Other Financing Sources (Uses):					
Transfers in (out)	67,400	-	-	-	(67,400)
Revenues and other financing sources over (under) expenditures & other financing uses	\$ -	\$ (67,380)	-	\$ (67,380)	\$ (67,380)
Fund Balance:					
Beginning of year, July 1			(67,380)		
End of year, June 30			\$ (67,380)		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
WATER IMPROVEMENTS PROJECTS - WACO BOOSTER PUMP
STATION ARP PROJECT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
ARP Funds	\$ 1,259,234	\$ 95,025	\$ 327,769	\$ 422,794	\$ (836,440)
Expenditures:					
Capital outlay:					
Land	5,000	4,126	-	4,126	874
Construction	1,164,734	-	327,572	327,572	837,162
Engineering	95,500	95,025	197	95,222	278
Total expenditures	<u>1,265,234</u>	<u>99,151</u>	<u>327,769</u>	<u>426,920</u>	<u>838,314</u>
Revenues over (under) expenditures	(6,000)	(4,126)	-	(4,126)	1,874
Other Financing Sources (Uses):					
Transfers in (out)	<u>6,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,000)</u>
Revenues and other financing sources over (under) expenditures & other financing uses	<u>\$ -</u>	<u>\$ (4,126)</u>	<u>-</u>	<u>\$ (4,126)</u>	<u>\$ (4,126)</u>
Fund Balance:					
Beginning of year, July 1			<u>(4,126)</u>		
End of year, June 30			<u>\$ (4,126)</u>		

CLEVELAND COUNTY WATER**ENTERPRISE FUND CAPITAL PROJECTS****WATER IMPROVEMENTS PROJECTS - CHERRYVILLE INTERCONNECT****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCE - BUDGET AND ACTUAL****FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
ARP Funds	\$ 3,000,000	\$ 281,570	\$ 1,769,358	\$ 2,050,928	\$ (949,072)
Expenditures:					
Capital outlay:					
Construction	2,478,200	-	1,651,190	1,651,190	827,010
Administration	27,800	-	-	-	27,800
Engineering	494,000	281,570	118,168	399,738	94,262
Total expenditures	3,000,000	281,570	1,769,358	2,050,928	949,072
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ -		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
WATER IMPROVEMENTS PROJECTS - STAGECOACH GREENWAY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
Restricted intergovernmental	\$ 1,350,000	\$ 192,107	\$ 147,824	\$ 339,931	\$ (1,010,069)
Expenditures:					
Capital outlay:					
Construction	1,000,000	-	635	635	999,365
Engineering	350,000	192,107	147,189	339,296	10,704
Total expenditures	1,350,000	192,107	147,824	339,931	1,010,069
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ -		

CLEVELAND COUNTY WATER**ENTERPRISE FUND CAPITAL PROJECTS****WATER IMPROVEMENTS PROJECTS - NEW BROAD RIVER WATER TREATMENT PLANT****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCE - BUDGET AND ACTUAL****FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

	Actual				Variance Over/Under
	Project Authorization	Prior Years	Current Year	Total to Date	
Expenditures:					
Capital outlay:					
Engineering	\$ 189,000	\$ 138,996	\$ 50,000	\$ 188,996	\$ 4
Revenues over (under) expenditures	(189,000)	(138,996)	(50,000)	(188,996)	4
Other Financing Sources (Uses):					
Transfers in (out)	189,000	-	-	-	(189,000)
Revenues and other financing sources over (under) expenditures & other financing uses	\$ -	\$ (138,996)	(50,000)	\$ (188,996)	\$ (188,996)
Fund Balance:					
Beginning of year, July 1			(138,996)		
End of year, June 30			\$ (188,996)		

CLEVELAND COUNTY WATER**ENTERPRISE FUND CAPITAL PROJECTS****WATER IMPROVEMENTS PROJECTS - REHAB OF UNION TRUST BANK BUILDING****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCE - BUDGET AND ACTUAL****FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
Grant revenue - Cleveland County	\$ 415,000	\$ 3,500	\$ 404,325	\$ 407,825	\$ (7,175)
Expenditures:					
Capital outlay:					
Construction	398,000	-	376,757	376,757	21,243
Engineering	35,000	3,500	31,067	34,567	433
Total expenditures	433,000	3,500	407,824	411,324	21,676
Revenues over (under) expenditures	(18,000)	-	(3,499)	(3,499)	14,501
Other Financing Sources (Uses):					
Transfers in (out)	18,000	-	-	-	(18,000)
Revenues and other financing sources over (under) expenditures & other financing uses	\$ -	\$ -	(3,499)	\$ (3,499)	\$ (3,499)
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			<u>\$ (3,499)</u>		

CLEVELAND COUNTY WATER**ENTERPRISE FUND CAPITAL PROJECTS****WATER IMPROVEMENTS PROJECTS - SCADA/WATER PLANT UPGRADES****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCE - BUDGET AND ACTUAL****FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

		Actual			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Over/Under</u>
Expenditures:					
Capital outlay:					
Construction	\$ 300,000	\$ 2,420	\$ 151,350	\$ 153,770	\$ 146,230
Engineering	<u>90,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,000</u>
Total expenditures	<u>390,000</u>	<u>2,420</u>	<u>151,350</u>	<u>153,770</u>	<u>236,230</u>
Revenues over (under) expenditures	(390,000)	(2,420)	(151,350)	(153,770)	236,230
Other Financing Sources (Uses):					
Transfers in (out)	<u>390,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(390,000)</u>
Revenues and other financing sources over (under) expenditures & other financing uses	<u>\$ -</u>	<u>\$ (2,420)</u>	(151,350)	<u>\$ (153,770)</u>	<u>\$ (153,770)</u>
Fund Balance:					
Beginning of year, July 1			<u>(2,420)</u>		
End of year, June 30			<u><u>\$ (153,770)</u></u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
WASTEWATER MERGER AND REGIONALIZATION FEASIBILITY STUDY PROJECT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
Restricted intergovernmental	\$ 200,000	\$ -	\$ 28,301	\$ 28,301	\$ (171,699)
Expenditures:					
Capital outlay:					
Engineering	200,000	-	28,301	28,301	171,699
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ -		

CLEVELAND COUNTY WATER**ENTERPRISE FUND CAPITAL PROJECTS****WATER MERGER AND REGIONALIZATION FEASIBILITY STUDY PROJECT****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCE - BUDGET AND ACTUAL****FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
Restricted intergovernmental	\$ 100,000	\$ -	\$ 11,535	\$ 11,535	\$ (88,465)
Expenditures:					
Capital outlay:					
Engineering	100,000	-	11,535	11,535	88,465
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>	<u>\$ -</u>
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			<u>\$ -</u>		

CLEVELAND COUNTY WATER

ENTERPRISE FUND CAPITAL PROJECTS
MUDDY FORK CREEK CROSSING PROJECT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025

		<u>Actual</u>			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Over/Under</u>
Expenditures:					
Capital outlay:					
Construction	\$ 146,000	\$ -	\$ 140,645	\$ 140,645	\$ 5,355
Revenues over (under) expenditures	(146,000)	-	(140,645)	(140,645)	5,355
Other Financing Sources (Uses):					
Transfers in (out)	146,000	-	-	-	(146,000)
Revenues and other financing sources over (under) expenditures & other financing uses	\$ -	\$ -	(140,645)	\$ (140,645)	\$ (140,645)
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ (140,645)		

CLEVELAND COUNTY WATER**ENTERPRISE FUND CAPITAL PROJECTS****LAWNDALE WTP BULK STORAGE PROJECT****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCE - BUDGET AND ACTUAL****FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

		<u>Actual</u>			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Over/Under</u>
Expenditures:					
Capital outlay:					
Engineering	\$ 45,000	\$ -	\$ 44,101	\$ 44,101	\$ 899
Revenues over (under) expenditures	(45,000)	-	(44,101)	(44,101)	899
Other Financing Sources (Uses):					
Transfers in (out)	45,000	-	-	-	(45,000)
Revenues and other financing sources over (under) expenditures & other financing uses	\$ -	\$ -	(44,101)	\$ (44,101)	\$ (44,101)
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			<u>\$ (44,101)</u>		

CLEVELAND COUNTY WATER**ENTERPRISE FUND CAPITAL PROJECTS****LAWNDALE ADMIN BUILDING REDESIGN PROJECT****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCE - BUDGET AND ACTUAL****FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

		<u>Actual</u>			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Over/Under</u>
Expenditures:					
Capital outlay:					
Engineering	\$ 56,633	\$ -	\$ 11,327	\$ 11,327	\$ 45,306
Revenues over (under) expenditures	(56,633)	-	(11,327)	(11,327)	45,306
Other Financing Sources (Uses):					
Transfers in (out)	56,633	-	-	-	(56,633)
Revenues and other financing sources over (under) expenditures & other financing uses	\$ -	\$ -	(11,327)	\$ (11,327)	\$ (11,327)
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ (11,327)		

CLEVELAND COUNTY WATER**ENTERPRISE FUND CAPITAL PROJECTS****R4045 US 74 MOORESBO RO WATERLINE PROJECT****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCE - BUDGET AND ACTUAL****FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2025**

		<u>Actual</u>			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Over/Under</u>
Revenues:					
Restricted intergovernmental	\$ 93,900	\$ -	\$ 9,000	\$ 9,000	\$ (84,900)
Expenditures:					
Capital outlay:					
Engineering	93,900	-	9,000	9,000	84,900
Revenues over (under) expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund Balance:					
Beginning of year, July 1			-		
End of year, June 30			\$ -		

CLEVELAND COUNTY WATER**SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2025**

Fiscal Year	Balance July 1, 2024	Additions and Adjustments	Collections and Credits	Balance June 30, 2025
2024-2025	\$ -	\$ 1,133,089	\$ 1,114,230	\$ 18,859
2023-2024	24,349	-	10,934	13,415
2022-2023	13,661	-	3,494	10,167
2021-2022	3,639	-	1,595	2,044
2020-2021	1,974	-	690	1,284
2019-2020	5,531	-	414	5,117
2018-2019	3,020	-	409	2,611
2017-2018	1,529	-	171	1,358
2016-2017	730	-	88	642
2015-2016	637	-	62	575
2014-2015	558	-	558	-
Total	<u>\$ 55,628</u>	<u>\$ 1,133,089</u>	<u>\$ 1,132,645</u>	<u>56,072</u>
Less: Allowance for uncollectible taxes				<u>-</u>
Ad valorem taxes receivable – net				<u>\$ 56,072</u>
Reconciliation with Revenues:				
Ad valorem taxes – Water Fund				<u>\$ 1,132,645</u>
Total Collections and Credits				<u>\$ 1,132,645</u>

CLEVELAND COUNTY WATER

ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2025

			Total Levy		
	Property Valuation	Rate (1)	Total Levy	Registered Motor Vehicles	Property Excluding Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 4,667,045,000	0.02%	\$ 933,409	\$ -	\$ 933,409
Motor vehicles taxed at current year's rate	<u>609,165,000</u>	0.02%	<u>121,833</u>	<u>121,833</u>	<u>-</u>
Total original levy	5,276,210,000		1,055,242	121,833	933,409
Discoveries:					
Current year taxes	391,130,000		78,226	-	78,226
Abatements	<u>(1,895,000)</u>		<u>(379)</u>	<u>-</u>	<u>(379)</u>
Total property valuation	<u>\$ 5,665,445,000</u>				
Net Levy			1,133,089	121,833	1,011,256
Less: Uncollected taxes at June 30, 2025			<u>18,859</u>	<u>-</u>	<u>18,859</u>
Current Year's Taxes Collected			<u>\$ 1,114,230</u>	<u>\$ 121,833</u>	<u>\$ 992,397</u>
Current Year Levy Collected Percentage			<u>98.336%</u>	<u>100.000%</u>	<u>98.135%</u>

CLEVELAND COUNTY WATER**ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2025****Secondary Market Disclosures:****Assessed Valuation:**

Assessment ratio (2)	<u>100%</u>
Real property	\$ (329,209,888)
Personal property	-
Public service companies (3)	<u>329,209,888</u>
Total assessed valuation	<u>\$ -</u>
Tax rate per \$100	<u>\$ 0.02</u>
Total	<u>\$ -</u>

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

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

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

CLEVELAND COUNTY WATER**TEN LARGEST TAXPAYERS
FOR THE YEAR ENDED JUNE 30, 2025**

Taxpayer	Type of Business	2024 Assessed Valuation	Percentage of Total Assessed Valuation
Clearwater Paper Shelby, LLC	Manufacturing	\$ 321,965,166	5.68%
Duke Energy Carolinas, LLC	Utilities	169,392,511	2.99%
Southern Power Company	Utilities	169,019,214	2.98%
Greenheck Fan Corporation	Manufacturing	85,183,691	1.50%
Public Service CO of NC Inc.	Utilities	66,646,664	1.18%
KSM Casting USA Inc.	Manufacturing	57,820,820	1.02%
Eaton Corporation	Manufacturing	49,651,995	0.88%
Transcontinental Pipeline	Utilities	33,385,902	0.59%
Ticona Polymers, Inc.	Manufacturing	32,536,909	0.57%
Dongfanghong, LLC	Manufacturing	30,386,561	0.54%
		<u>\$ 1,015,989,433</u>	<u>17.92%</u>

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COMPLIANCE REPORTS

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

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the accompanying financial statements of the business-type activities of Cleveland County Water as of and for the year ended June 30, 2025 and the related notes to the financial statements, which collectively comprise Cleveland County Water's basic financial statements, and have issued our report thereon dated December 5, 2025.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
December 5, 2025

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

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Cleveland County Water's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of Cleveland County Water's major federal programs for the year ended June 30, 2025. Cleveland County Water's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

In our opinion, Cleveland County Water complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in*

internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
December 5, 2025

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

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

Independent Auditor's Report

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

Report on Compliance for Each Major State Program

Opinion on Each Major State Program

We have audited Cleveland County Water's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Cleveland County Water's major state programs for the year ended June 30, 2025. Cleveland County Water's major state programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

In our opinion, Cleveland County Water complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2025.

Basis for Opinion on Each Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control*

over compliance is a deficiency, or combination of deficiencies, in internal over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
December 5, 2025

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CLEVELAND COUNTY WATER

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2025

1. Summary of Auditor's Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Non-compliance material to financial
statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X None reported

Type of auditor's report issued on compliance
for major federal programs:

Unmodified

Any audit findings disclosed that are
required to be reported in accordance with 2
CFR 200.516(a)?

_____ Yes X No

Identification of major federal programs:

Names of Federal Programs or Cluster

AL No(s)

Water and Waste Disposal Systems for Rural
Communities

10.760

Dollar threshold used to distinguish
between Type A and Type B programs

\$750,000

Auditee qualified as low-risk auditee?

_____ Yes X No

CLEVELAND COUNTY WATER

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2025

1. Summary of Auditor's Results (continued)

State Awards

Internal control over major state programs:

- Material weakness (es) identified? No
- Significant deficiency(s) identified? None reported

Type of auditor's report issued on compliance
for major state programs Unmodified

Any audit findings disclosed that are required
to be reported in accordance with the State Single
Audit Implementation Act? No

Identification of major state programs:

Program Name

Drinking Water Reserve and the Wastewater Reserve

Auditee qualified as low-risk auditee? No

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

None

3. Findings Related to the Audit of Federal Awards

None

4. Findings Related to the Audit of State Awards

None

CLEVELAND COUNTY WATER
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2025

None

CLEVELAND COUNTY WATER
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

Grantor/Pass-through Grantor/Program Title	Federal AL Number	State/ Pass-through Grantor's Number	Federal (Direct & Passed-through) Expenditures	State Expenditures	Passed Through To Subrecipients
Federal Grants:					
<u>U.S. Dept. of Homeland Security</u>					
Passed-through N.C. Department of Public Safety:					
Division of Emergency Management:					
Disaster Grants - Public Assistance (Presidentially Declared Disasters	97.036	808713	\$ 33,750	\$ -	\$ -
Disaster Grants - Public Assistance (Presidentially Declared Disasters	97.036	808723	118,187	-	-
Total U.S. Dept. of Interior			151,937	-	-
<u>U.S. Department of Agriculture</u>					
Water and Waste Disposal Systems for Rural Communities	10.760	n/a	7,094,584	-	-
Total U.S. Department of Agriculture			7,094,584	-	-
<u>U.S. Department of Treasury</u>					
Passed-through State of North Carolina and the N.C. Department of Environmental Quality					
COVID-19 American Rescue Plan Act					
Coronavirus State and Local Fiscal Recovery Funds - Drinking Water Wastewater	21.027	SRP-D-ARP-0039	327,769	-	-
COVID-19 American Rescue Plan Act					
Coronavirus State and Local Fiscal Recovery Funds - Drinking Water Wastewater	21.027	SRP-D-ARP-0036	4,175,498	-	-
COVID-19 American Rescue Plan Act					
Coronavirus State and Local Fiscal Recovery Funds - Drinking Water Wastewater	21.027	SRP-D-ARP-0038	3,590,402	-	-
COVID-19 American Rescue Plan Act					
Coronavirus State and Local Fiscal Recovery Funds - Drinking Water Wastewater	21.027	SRP-D-ARP-0035	196,866	-	-
COVID-19 American Rescue Plan Act					
Coronavirus State and Local Fiscal Recovery Funds - Drinking Water Wastewater	21.027	MRF-W-ARP-0020	28,301	-	-
COVID-19 American Rescue Plan Act					
Coronavirus State and Local Fiscal Recovery Funds - Drinking Water Wastewater	21.027	MRF-W-ARP-0014	11,535	-	-
Passed-through City of Cherryville					
COVID-19 American Rescue Plan Act					
Coronavirus State and Local Fiscal Recovery Funds- Drinking Water Wastewater	21.027	SRP-D-ARP-0195	1,769,358	-	-
Total U.S. Department of Treasury			10,099,729	-	-
Total Federal Assistance			17,346,250	-	-
State Grants:					
<u>N.C. Department of Environmental Quality</u>					
Division of Water Infrastructure					
Drinking Water Reserve and the Wastewater Reserve	S.L. 2023-134	SRP-D-134-0022	-	3,228,751	-
Total N.C. Department of Environmental Quality			-	3,228,751	-
<u>N.C. Department of Transportation</u>					
State-wide Contingency	DOT -18	50388	-	147,824	-
Total N.C. Department of Transportation			-	147,824	-
Total State Assistance			-	3,376,575	-
Total Federal and State Assistance			\$ 17,346,250	\$ 3,376,575	\$ -

CLEVELAND COUNTY WATER
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

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

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and state grant activity of Cleveland County Water under the programs of the federal government and the state of North Carolina for the year ended June 30, 2025. The information in this SEFSA is presented in accordance with the requirements of Title 2 US *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the schedule presents only a selected portion of the operations of Cleveland County Water, it is not intended to and does not present the financial position, changes in net position, or cash flows of Cleveland County Water.

2. Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the full accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

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

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