



South Granville Water and Sewer Authority
415 Central Ave, Suite B Butner, NC 27509

TO: SGWASA Board Members
FROM: Richard Balmer, Finance Officer *RB*
THROUGH: Scott N. Schroyer, Executive Director *SN*
DATE: 09/30/20
SUBJECT: Audit Report and Audit Presentation

Enclosed for your review is the Audit Report and the Auditor's slide presentation for fiscal year ended 06/30/20. As always if you have any questions about the Audit Report or wish to discuss any financial data contained within, please contact me at your convenience. Mrs. Carleen Evans from the audit firm Winston, Williams, Creech, Evans & Company, LLP will be presenting the Audit to the Board at the regularly scheduled Board meeting on October 13, 2020.

Financial highlights of the audit for fiscal year 2019-2020 (as of 6/30/20):

- ✓ The Authority's audit resulted in an unqualified opinion from a clean audit with no findings and no management letter being issued.
- ✓ This year's audit was a Yellow Book audit because federal expenditures did not exceed \$750,000.
- ✓ Cash and equivalents increased \$3.1 million for a cumulative total of \$33.5m. Of the \$33.5m balance approximately \$14.5 million has been designated by the Board for capital improvement likely to be expended in the upcoming fiscal year(s) for the water treatment plant upgrades.
- ✓ The Authority's fund balance (undesignated) remains healthy.
- ✓ The Authority has \$21.2m in loan debt and \$16.2m in bond debt outstanding and paid down loan/debt principal by \$2.4m during the fiscal year
- ✓ The Authority's water and sewer revenues for fiscal year 19-20 increased by \$2.5 million when compared to fiscal year 18-19 and increased by \$1m when compared to fiscal year 17-18.

**SOUTH GRANVILLE WATER
AND SEWER AUTHORITY**

Butner, North Carolina

Financial Statement

Year Ended June 30, 2020

Board of Directors

Jimmy Gooch, Chair
Edgar Smoak, Vice-Chair
Bill Birdsong
Georgana Kicinski
Tim Karan
Kenneth McLamb
Ed Mims

Staff

Scott N Schroyer, Executive Director
Richard Balmer, Finance Officer

South Granville Water and Sewer Authority
Financial Statement
June 30, 2020

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Winston, Williams, Creech, Evans, & Company, LLP

Certified Public Accountants



America Counts on CPAs

Gary L. Williams, CPA
Carleen P. Evans, CPA
Jennifer T. Reese, CPA
Tara H. Roberson, CPA

Curtis G. Van Horne, CPA

Independent Auditor's Report

To the Board Members
South Granville Water and Sewer Authority
Butner, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the South Granville Water and Sewer Authority, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Granville Water and Sewer Authority as of June 30, 2020, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6-12, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 37 and 38, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Granville Water and Sewer Authority's basic financial statements. The Schedule of Revenues and Expenses-Budget and Actual and the Schedule of Revenues and Expenses-Budget and Actual-Capital Projects are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Revenues and Expenses-Budget and Actual, the Schedule of Revenues and Expenses-Budget and Actual-Capital Projects are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures; including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, the budgetary schedules are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2020 on our consideration of South Granville Water and Sewer Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Granville Water and Sewer Authority's internal control over financial reporting and compliance.

Winston, Williams, Creech, Evans & Company, LLP

Winston, Williams, Creech, Evans & Company, LLP

Oxford, North Carolina

September 15, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of South Granville Water and Sewer Authority (SGWASA) offers to the readers of SGWASA's Financial Statements the following discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2020. We encourage the readers to read the information presented here in conjunction with additional information that we have furnished in the Authority's financial statements, which follow this narrative.

BACKGROUND

A Memorandum of Understanding (MOU) created SGWASA in February 2005, with the first financial transaction taking place after July 2005. Granville County collected amounts for SGWASA and paid bills for SGWASA until December 31, 2005. Subsequent Transitional Operating Agreement and Memorandum of Understanding (MOU) by and between SGWASA and the North Carolina Department of Health and Human Services (NCDHHS), made SGWASA responsible for complete operation and governance of the Butner utilities beginning January 1, 2006. January 1, 2006, SGWASA received the water and sewer system previously owned and operated by the State and a cash reserve for operation and maintenance expenses. In Return, SGWASA issued a \$9,200,000 Non-General Obligation Bond to enable it to retire the prior debt issued by the State that was secured by the System. The bonds were issued in response to a July 13, 2006 Session Law 2006-159, Senate Bill 491 of the 2005-2006 Legislative Session.

During a regular meeting on January 7, 2008, and after holding the required public hearing, the Granville County Board of Commissioners approved a resolution abolishing the Lyon Station and Cozart Water and Sewer Districts effective June 30, 2008. The Board also authorized the Chairman to sign the Asset Transfer Agreement between the County and SGWASA. The Asset Transfer Agreement was signed on January 8, 2008, transferring all assets and 3 employee positions to SGWASA retroactive to January 1, 2008.

On January 31, 2008, the Town of Stem signed an Asset Transfer Agreement effectively transferring all assets to SGWASA.

On March 25, 2015, the City of Creedmoor signed an Asset Transfer Agreement effectively transferring all assets to SGWASA at midnight on March 27, 2015.

FINANCIAL HIGHLIGHTS

At year-end, SGWASA's net position total \$51.9 million, which reflects a \$4.8 million increase over prior year and includes 2.6 million designated for capital improvement.

Customer revenue of \$13.6 million and related expenses resulted in an operating income of \$5.5 million. Non-operating income and expenses combined with contributed capital created a net income (increase in net assets) of \$4.7 million.

Existing bond debt had a year-end balance of \$17.2 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

SGWASA's primary mission is to provide water and sewer services to portions of southern Granville County. SGWASA does not provide other general-purpose government services or programs. SGWASA operations, capital expansion program and debt payments are funded almost entirely through rates, fees and other charges for these water and sewer services. As such, SGWASA is considered to be, and therefore presents its financial report as a stand-alone enterprise fund.

As a stand-alone enterprise fund, SGWASA's basic financial statements consist of a *Statement of Net Position*, a *Statement of Revenues, Expenses and Changes in Net Position* (Equity) and *Statement of Cash Flows*. These statements, together with the *Management's Discussion and Analysis*, provide both short-term and long-term financial information about, and implications for, financial position. To further illuminate the information contained in these statements, *Notes to the Financial Statements*, *Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP)*, *Statement of Revenues and Expenditures – Budget and Actual (Non-GAAP) Capital Projects*, and *Schedule of Federal and State Awards* appear immediately following the basic financial statements.

The *Statement of Net Position* similar to a balance sheet, presents SGWASA's basic financial position through disclosure of information about SGWASA's assets and liabilities. Net position represents the difference between total assets and total liabilities. Net position may serve over time as one useful indicator of SGWASA's financial condition.

The *Statement of Revenues, Expenses and Changes in Net Position*, similar to private sector income statements, provides information regarding SGWASA's total economic resource inflow and outflow (accrual method of accounting). The difference between these inflows and outflows represents the change in net position which links this statement to the Statement of Net Position.

The *Statement of Cash Flows* deals specifically with the flow of cash and cash equivalents arising from operating, capital and related financing and investing activities. Because SGWASA's *Statement of Revenues, Expenses and Changes in Net Position* is a measurement of the flow of total economic resources, operating income usually differs from net cash flow from operations. To enhance the reader's understanding of this difference, the *Statement of Cash Flows* also includes reconciliation between these two amounts. In accordance with accounting principals generally accepted in the United States of America, a reconciliation of cash and cash equivalents is also presented in this statement.

The *Notes to the Financial Statements* provide additional information to the understanding of the basic financial statements.

Revenues

SGWASA is not empowered to levy or collect taxes, nor does SGWASA receive funding from the taxing authorities within our service area. SGWASA's operations and debt service are funded almost entirely from fees charged to our customers for water and sewer services and other related services. As such, SGWASA's revenue stream is impacted by fluctuations in demand for our services and other economic factors.

Operating Revenues

Revenues derived from water and sewer services are comprised of two components: a fixed monthly service charge based on the size of the installed water meter and a monthly volume usage (commodity) charge per thousand gallons of water consumed. The commodity charge for sewer, although based on water consumption, incorporates the assumption that not all water consumed is returned to the sewer system. All rates, fees and charges are calculated under the cost-of-service rate making methodology.

	2020	2019	2018
Operating Revenues			
Water service	\$5,210,358	\$4,027,088	\$4,185,830
Waste Water service	7,918,610	6,601,889	6,807,765
Service Initiation & Other	443,218	2,404,594	949,294
Total Operating Revenues	\$13,572,186	\$13,033,571	\$11,942,889

Non-Operating Revenues

	2020	2019	2018
Non-Operating Revenues			
Investment Income	\$362,104	\$506,201	\$214,897
Grants	405,667	685,050	-
Contributed Capital	-	534,620	-
Gain on Sale of Capital Asset	-	-	16,766
Total non-operating revenues	\$767,771	\$1,725,871	\$231,663

Total Revenues

Total revenue of \$13,934,290 was as projected. Total non-billing revenue resulting from allocation fees, tap fees, and customer penalties was slightly higher than anticipated due to conservative budget practices and unpredictability of those revenue streams. In response to the Covid-19 pandemic, the NC Governor issued Executive Orders which suspended late and non-payment fees effective March 31, 2020. These Executive Orders resulted in a loss of fee revenue for the final three months of the fiscal year; however these revenue losses were offset by other non-billing revenue items such as system development fees, tap fees, and interest income. Investment revenue for the fiscal year was slightly higher than original projections despite the pandemic's negative impact on interest earnings for the final three months of the fiscal year.

Expenses

Operating Expenses

	2020	2019	2018
General and administrative	\$1,656,723	\$1,175,332	\$1,080,619
Water supply, treatment and distribution	1,402,070	1,462,159	1,157,469
Waste Water treatment and collections	1,510,114	1,462,230	1,375,137
Meter reading and Maintenance	944,739	842,476	758,081
Pump and lift stations	461,004	466,474	447,093
Depreciation	2,147,090	2,021,940	1,966,180
Total operating expenses	\$8,121,740	\$7,430,611	\$6,784,579

Non-Operating Expenses

	2020	2019	2018
Debt related expense-Town of Butner	\$ 500,000	\$ 500,000	\$ 500,000
Interest Expense	976,043	1,030,698	1,044,985
DOT Hwy 75 Waterline Relocation	-	-	-
Total non-operating expenses	\$1,476,043	\$ 1,530,698	\$1,544,985

Total expenses of \$9,597,783 were comparable to projections.

Capital Asset & Debt Administration

Capital Assets – SGWASA’s capital assets as of June 30, 2020 totaled \$55,182,176 (net of accumulated depreciation). These assets included buildings, machinery and equipment, land, water distribution system, waster water collection system, and vehicles.

LONG TERM DEBT

Changes in Long-Term Liabilities - A summary of changes in long-term liabilities for the year is presented as follows:

	Balance <u>July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2020</u>	Current <u>Portion</u>
<u>Bonds Payable</u>					
Suntrust	\$ 4,140,867	\$ -	\$ 514,511	\$ 3,626,356	\$ 525,630
USDA	4,509,000	-	75,000	4,434,000	77,000
USDA	5,825,000	-	87,000	5,738,000	90,000
BB&T	2,791,481	-	308,613	2,482,868	319,353
<u>Loans Payable</u>					
DENR-DWSRF					
(ARRA)	51,890	-	4,717	47,173	4,717
DENR (ISF)	613,520	-	43,823	569,697	43,823
DENR (ISF)	21,525,842	-	1,345,365	20,180,477	1,345,365
DENR (ISF)	463,282	-	42,116	421,166	42,117
Net pension liability	611,355	12,661	-	624,016	-
Accrued Vacation Leave	184,815	33,828	-	218,643	218,643
	<u>\$40,717,052</u>	<u>\$ 46,489</u>	<u>\$2,421,145</u>	<u>\$38,342,396</u>	<u>\$2,666,648</u>

Bonds Payable - At June 30, 2020, the System had bonds outstanding as follows:

<u>Purpose</u>	<u>Series</u>	<u>Final Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Principal Paid Through June 30, 2020</u>	<u>Principal Outstanding June 30, 2020</u>
Redemption of State of NC Series 2001 Butner Water and Sewer System Revenue Bonds	2006	10/15/2026	\$ 9,200,000	\$5,573,644	\$ 3,626,356
USDA Bond (assumed from City of Creedmoor)	2012	6/1/2052	4,846,000	412,000	4,434,000
USDA Bond (to acquire City of Creedmoor system)	2015	6/1/2054	6,220,000	482,000	5,738,000
BB&T Bond (to acquire City of Creedmoor system)	2015	3/1/2027	<u>3,935,136</u>	<u>1,452,268</u>	<u>2,482,868</u>
			<u>\$24,201,136</u>	<u>\$7,919,912</u>	<u>\$16,281,224</u>

The 2006 bonds were issued in response to the July 23, 2006 Session Law 2006-159, Senate Bill 491 of the 2005-2006 Legislative Session. SGWASA received the water and sewer system previously owned and operated by the state and a cash reserve for operation and maintenance expenditures. In return, SGWASA issued this Non-General Obligation Bond to enable it to retire the prior debt issued by the State that was secured by the System. The bonds were modified on March 15, 2013 reducing the interest rate from 4.30% to 2.14% and saving a projected \$1.2 million over the remaining term.

The 2012 bonds were issued by USDA to City of Creedmoor for water/sewer projects. On March 27, 2015 south Granville Water and Sewer Authority purchased the water and sewer system from the City of Creedmoor. As part of that acquisition, USDA allowed an assumption of the existing debt by South Granville Water and Sewer Authority. This debt is reflected above with a 2015 issuance date and the amount assumed by the Authority at the time of acquisition. The original date of issue was 2012 with an original issue amount of nearly \$4.965 million. An additional \$10.1 million in new revenue bonds were issued to fund the purchase as reflected above.

The 2015 bonds were issued by USDA and BB&T Bank to finance the purchase of the water and sewer system from the City of Creedmoor.

Budgetary Highlights for the Coming Year

Water revenue and sewer revenues are projected to decrease for the 2020-2021 fiscal year primarily due to a projected usage decline for two large institutional customers. The Authority's governing Board approved rates without a rate increase for services rendered after July 1, 2020. Use of fund balance is currently budgeted for the shortfall.

The budget for fiscal year 2020-2021 includes a 2% cost of living adjustment, an average merit pay increase of 2%, and a matching option for 401k up to 1% of pay. Additional increases include adding a position for Engineer and a part-time position for a second Customer Service Representative. Other employee benefit related increases were included for medical insurance, dental insurance, retirement, and workers' compensation insurance. The budget also includes increases for expanding technology and improving communication with customers. Capital outlay has been budgeted to renovate, replace, or upgrade existing equipment, infrastructure, and vehicles. Repairs are also included for both general repairs and specified large repairs.

Requests for Information

This report is designed to provide an overview of the South Granville Water and Sewer Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the South Granville Water and Sewer Authority, 415 Central Avenue, Suite B, Butner, North Carolina 27509.

BASIC FINANCIAL STATEMENTS

**SOUTH GRANVILLE WATER AND SEWER AUTHORITY
BUTNER, NORTH CAROLINA
STATEMENT OF NET POSITION
JUNE 30, 2020**

EXHIBIT 1

Assets		
Current Asset:		
Cash and cash equivalents	\$	33,560,910
Receivables:		
Trade accounts		1,612,437
Receivable from other governments		174,386
Other receivables (vendor deposit)		42,619
Inventory		351,716
Total Current Assets		35,742,068
Capital Assets		
Land and construction in progress		1,664,406
Depreciable (Net of accumulated depreciation)		53,517,780
Total Capital Assets		55,182,186
Total Assets		90,924,254
Deferred Outflows of Resources		
Contributions to pension plan in current fiscal year		402,512
Total Assets and Deferred outflows of resources		91,326,766
Liabilities and Net Assets		
Current Liabilities		
Trade Payables		268,209
Customer deposits and advances		651,915
Accrued interest payable		131,039
Payroll liabilities		2,462
Current portion of long term liabilities		2,666,648
Total Current Liabilities		3,720,273
Non-Current Liabilities		
Net Pension Liability		624,016
Due in more than one year		35,051,732
Total Liabilities		39,396,021
Deferred Inflows of Resources		40,968
Net Position		
Net investment in capital assets		17,682,449
Unrestricted		34,207,328
Total Net Position		51,889,777
Total Liabilities, Deferred Inflows and Net Position	\$	91,326,766

The notes to the Financial Statements are an integral part of the financial statements.

**SOUTH GRANVILLE WATER AND SEWER AUTHORITY
BUTNER, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2020**

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Operating Revenues	
Water	\$ 5,210,358
Wastewater	7,918,610
Other	443,218
Total Operating Revenues	13,572,186
Operating Expenses	
Administration	840,621
Billing/Collections	321,746
Water Supply, distribution, and treatment	1,402,070
Wastewater treatment and collection	1,510,114
Utilities:	
Meter reading	88,390
Maintenance: water line	356,722
Maintenance: sewer line	499,627
Pump stations, lift stations, water towers	461,004
Board/clerk and non-departmental expenses	366,105
Insurance	128,251
Depreciation	2,147,090
Total Operating Expenses	8,121,740
Operating Income	5,450,446
Non-operating revenues (expenses)	
Investment income	362,104
FEMA Reimbursements (Hurricane Damages)	405,667
Debt related expense-Town of Butner	(500,000)
Interest expense	(976,043)
Total Non-operating Revenues (Expenses)	(708,272)
Change in Net Position	4,742,174
Net position - July 1, 2019	47,147,603
Net Position - June 30, 2020	\$ 51,889,777

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

EXHIBIT 3

**SOUTH GRANVILLE WATER AND SEWER AUTHORITY
BUTNER, NORTH CAROLINA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020**

Cash Flows From Operating Activities	
Receipts from customers	\$ 13,147,590
Payments for goods and services	(3,470,869)
Payments to employees and fringe benefits	(2,614,942)
Customer deposits	41,630
Other receipts	443,218
Net cash provided by operating activities	7,546,627
Cash Flows From Capital and Related Financing Activities	
Interest paid on bond maturities	(985,208)
Principal paid on long term debt	(2,421,145)
Debt related expense-Town of Butner	(500,000)
Proceeds from capital debt	366,029
Purchase of Capital Assets	(1,215,941)
Net cash provided by (used in) capital and related financing activities	(4,756,265)
Cash flows From Investing Activities	
Investment income	362,104
Net increase (decrease) in cash and cash equivalents	3,152,466
Cash and cash equivalents at beginning of year	30,408,444
Cash and cash equivalents at end of year	\$ 33,560,910
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 5,450,446
Adjustments to reconcile operating income to net cash Provided (used) by operating activities:	
Depreciation	2,147,090
Changes in assets and liabilities:	
(Increase) Decrease in Receivables	18,622
(Increase) Decrease in Receivable from other Governments	(280)
(Increase) Decrease in Prepays	10,256
(Increase) Decrease in Other Receivables	(42,619)
(Increase) Decrease in Inventory	(29,640)
(Increase) Decrease in Deferred Outflows of resources for Pensions	66,878
Increase (Decrease) in Customer Deposits	41,630
Increase (Decrease) in Net Pension Liability	12,661
Increase (Decrease) in Deferred Inflows of resources for Pensions	2,388
Increase (Decrease) Accounts payable	(165,725)
Increase (Decrease) Other accrued liabilities	1,092
Increase (Decrease) in Compensated absences	33,828
Total adjustments	2,096,181
Net cash provided by operating activities	\$ 7,546,627

The notes to the Financial Statements are an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

South Granville Water and Sewer Authority
Butner, North Carolina
Notes to the Financial Statements
June 30, 2020

Note 1. Summary of Significant Accounting Policies

The accounting policies of South Granville Water and Sewer Authority conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

A. Reporting Entity

South Granville Water and Sewer Authority (SGWASA or the Authority) was created February, 2005, pursuant to Chapter 162A of the North Carolina General Statutes by a Transitional Operating Agreement and Memorandum of Understanding (MOU) by and between SGWASA and the North Carolina Department of Health and Human Services. A subsequent Transitional Operating Agreement and MOU made SGWASA responsible for complete operation and governance of the Butner Utilities, effective January 1, 2006. The Authority is a separate governmental unit granted independent authority by the North Carolina General Statutes to allow the Authority's board members to set rates, fees and charges.

On July 23, 2006, session Law 2006-159, Senate Bill 491 of the 2005-2006 Legislative Session was signed into law. During the 2006-2007 fiscal year, SGWASA received the water and sewer system previously owned and operated by the State and a cash reserve for operation and maintenance expenses. SGWASA retired the debt issued by the State that was secured by the System.

B. Basis of Presentation, Measurement Focus - Basis of Accounting

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority's 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 grants and subsidies, result from non-exchange transactions. Other non-operating items such as investment earning are ancillary activities.

South Granville Water and Sewer Authority
Butner, North Carolina
Notes to the Financial Statements
June 30, 2020

The Authority distinguishes 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 the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for the Authority include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Budgetary Data

The Authority's budget is adopted as required by the North Carolina General Statutes. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the accrual basis of accounting except that capital outlay and debt retirement are budgeted to effect better budgetary control. Expenditures may not legally exceed appropriations at the functional level. Amendments are required for any revisions that alter total expenditures or change functional expenditures. The governing board must approve all amendments. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position

1. Deposits and Investments

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

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

State statute authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority;

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obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"). The Authority's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT-Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

The Authority's investments with a maturity of more than one year at acquisition and non-money market investments are reported at cost or amortized cost, which approximates their fair value as determined by quoted market prices. The NCCMT Cash Portfolio's securities, a SEC-register (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

2. Allowance for Uncollectible Accounts

All water and sewer service receivables are shown net of an allowance for uncollectible accounts. Uncollectible Trade Receivables are determined by SGWASA based on their knowledge of collection history for similar customers.

3. Prepaid Items

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

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are defined by the Authority as assets with an initial, individual cost of more than \$5,000 for equipment or \$100,000 for infrastructure and an estimated useful life in excess of one year. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015, are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost.

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The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method over the following useful lives: buildings range from 20-50 years, other structures and improvements from 10-40 years, and equipment from 3-15 years.

5. Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service with the Authority. All vacation pay is accrued when incurred in the basic financial statements, but is limited to thirty days. At June 30, 2020, the Authority had recorded a liability for accrued vacation and the salary-related payments of \$218,643.

6. Long-Term Obligations

SGWASA has an obligation to pay the Town of Butner \$41,667 per month from operating revenue. SGWASA has an obligation to pay the Town of Butner \$5,000 per month for lease of office space with a 20 year lease term beginning July 1, 2011.

SGWASA also has an obligation to pay Debt Service on Series 2001 revenue bonds assumed by SGWASA from the State. These payments averaged \$49,842 for the monthly payments of principal and interest.

SGWASA has an obligation to pay an annual principal loan payment to NC DEQ in May of each year for \$4,717 for an ARRA loan.

SGWASA has an obligation to pay a \$5,697 interest only payment in November of 2020 and a \$49,520 principal and interest loan payment to NC DEQ in May of 2021 for the recent sewer line rehabilitation loan.

SGWASA has an obligation to pay a \$201,805 interest only payment in November of 2020 and a \$1,547,170 principal and interest loan payment

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to NC DEQ in May of 2021 for a loan to upgrade the waste water treatment facility.

SGWASA has an obligation to pay NC DEQ a \$42,117 annual principal loan payment in May of 2021 for a loan assumed during the acquisition of the water and sewer system from the City of Creedmoor on March 27, 2015.

SGWASA has an obligation to pay USDA an annual principal and interest payment in June of 2021 for a revenue bond assumed during the acquisition of the water and sewer system from the City of Creedmoor on March 27, 2015. This payment averages \$232,507 for the annual payment.

SGWASA has an obligation to pay USDA an annual principal and interest in June of 2021 for a revenue bond that financed part of the acquisition of the water and sewer system from the City of Creedmoor on March 27, 2015. This payment averages \$291,281 for the annual payment of principal and interest.

SGWASA has an obligation to pay BB&T an interest only payment in September of 2020 and a principal and interest payment in March of 2021 for a revenue bond that financed part of the acquisition of the water and sewer system from the City of Creedmoor on March 27, 2015. These payments average \$405,756 annually for the payment of principal and interest.

7. Net Position

Net Position is classified as net investment in capital assets; restricted; and unrestricted. Net investment in capital assets consist of capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes or other borrowing attributable to the acquisition, construction or improvement of those assets. Restricted net position represents constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law by state statute.

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

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8. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures 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.

9. Pensions

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

Note 2. Stewardship and Accountability

Excess of Expenditures over Appropriations – During the year, SGWASA did not have any functions with expenditures greater than the budgeted amount (see Exhibit 6).

Note 3. Cash, Cash Equivalents and Investments

Deposits – All of the Authority's deposits are either insured or collateralized by using one of two methods. Under the dedicated method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the Authority's agents in the unit'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 the Authority, these deposits are considered to be held by the Authority's agent in the Authority'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 the Authority under the pooling

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method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the pooling method. The Authority has no policy regarding custodial credit risk for deposits.

At June 30, 2020, the Authority's deposits had a carrying amount of \$6,855,235 and a bank balance of \$7,098,879. Of the bank balance, \$250,000 was covered by federal depository insurance and \$6,848,879 in interest-bearing deposits was covered by collateral held under the pooling method. The Authority had cash on hand of \$1,800 at June 30, 2020.

At June 30, 2020, the Authority had \$20,334,476 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. At June 30, 2020, the Authority had \$6,369,399 invested with the North Carolina Capital Management Trust's Term Portfolio which carried a credit rating of AAAM by Standard and Poor's.

The Authority has no policy regarding credit risk.

Note 4. Receivables

Receivables at June 30, 2020 were as follows:

Trade accounts receivable		\$ 1,612,437
Accounts receivable sales tax refund	72,969	
Accounts receivable other	<u>101,417</u>	
		174,386
Other receivable-vendor deposit		<u>42,619</u>
Total receivables		<u>\$ 1,829,442</u>

Note 5. Capital Assets

Capital assets are stated at cost at date of acquisition or construction net of accumulated depreciation. The System capitalizes all assets that have a value or cost greater than or equal to \$5,000 and all infrastructure greater than or equal to \$100,000 at the date of acquisition and an expected useful life of more than one year. Depreciation is computed using the straight-line method over the following useful lives: buildings range from 20-50 years, other structures and improvements from 10-40 years, and equipment from 3-15 years.

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A summary of changes in capital assets is presented as follows:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2020</u>
Capital Assets, Non-depreciable				
Land	\$ 33,450	\$ -	\$ -	\$ 33,450
Construction in Progress (CIP)	<u>1,789,197</u>	<u>989,010</u>	<u>1,147,251</u>	<u>1,630,956</u>
Total Capital Assets, Non-depreciable	<u>1,822,647</u>	<u>989,010</u>	<u>1,147,251</u>	<u>1,664,406</u>
Capital Assets, Depreciable				
Buildings	34,230,255	-	-	34,230,255
Furniture & Fixtures /Improvements	18,903	-	-	18,903
Machinery & Equipment	1,207,897	124,306	36,932	1,295,271
Other Structures & Improvements	<u>33,267,116</u>	<u>1,249,876</u>	<u>-</u>	<u>34,516,992</u>
Total Capital Assets, Depreciable	<u>68,724,171</u>	<u>1,374,182</u>	<u>36,932</u>	<u>70,061,421</u>
Less Accumulated Depreciation / Amortization for:				
Buildings	6,075,736	778,369	-	6,854,105
Machinery & Equipment	829,179	89,709	36,932	881,956
Other Structure & Improvements	<u>7,528,568</u>	<u>1,279,012</u>	<u>-</u>	<u>8,807,580</u>
Total Accumulated Depreciation	<u>14,433,483</u>	<u>2,147,090</u>	<u>36,932</u>	<u>16,543,641</u>
Total Capital Assets, Depreciable Net	<u>54,290,688</u>			<u>53,517,780</u>
Capital Assets, Net	<u>\$ 56,113,335</u>			<u>\$ 55,182,186</u>

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Note 6. Pension Plan Obligations

Local Governmental Employees' Retirement System

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. SGWASA employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. SGWASA's contractually required contribution rate for the year ended June 30, 2020, was 8.95% for general employees, actuarially determined as an amount that, when combined with

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employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from SGWASA were \$178,740 for the year ended June 30, 2020.

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

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

At June 30, 2020, SGWASA reported a liability of \$624,016 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. SGWASA’s proportion of the net pension asset was based on a projection of SGWASA’s long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019, SGWASA’s proportion was .02285%, which was an increase of 0.00292% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, SGWASA recognized pension expense of \$260,667. At June 30, 2020, SGWASA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 106,847	\$ -
Changes of assumptions	101,704	-
Net difference between projected and actual earnings on pension plan investments	15,221	-
Changes in proportion and differences between SGWASA contributions and proportionate share of contributions	-	40,968
SGWASA contributions subsequent to the measurement date	<u>178,740</u>	<u>-</u>
Total	<u>\$ 402,512</u>	<u>\$ 40,968</u>

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\$178,740 reported as deferred outflows or resources related to pensions resulting from SGWASA contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended June 30:

2021	96,489
2022	21,708
2023	51,921
2024	12,686
2025	-
Thereafter	-

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

Inflation	3.0 percent
Salary increases	3.5 to 8.1 percent, including inflation productivity factor
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

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established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies; return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

Asset Class	Target <u>Allocation</u>	Long-Term Expected Real <u>Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	<u>6.0%</u>	4.0%
Total	<u>100.00%</u>	

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

Discount rate. The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of SGWASA’s proportionate share of the net pension asset to changes in the discount rate. The following presents SGWASA’s proportionate share of the net pension asset calculated using the discount rate of 7.0 percent, as well as what SGWASA’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0 percent) or one percentage point higher (8.0 percent) than the current rate:

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	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
SGWASA's proportionate share of the net pension liability (asset)	\$1,427,238	\$624,016	(\$43,625)

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

Note 7. Other Employment Benefit

The Authority has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Authority has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Authority considers these contributions to be immaterial.

Note 8. Risk Management and Commitments

Risk Management: The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority has property, general liability, workers' compensation, and employee health coverage. Claims have not exceeded coverage. The Authority has no flood insurance or insurance covering "acts of terrorism" and has determined that it is not needed.

In accordance with G.S. 159-29, the Authority's employees that have access to \$100 or more at any given time of the Authority's funds are performance bonded through a commercial surety bond. All employees are covered for \$100,000. The Executive Director and the Finance Officer are covered for \$250,000 each.

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Commitments: The Authority is committed under the Memorandum of Understanding and public legislation to eliminate the Butner Water and Sewer System Revenue Bonds, Series 2001. The Authority is committed to pay the Town of Butner \$41,667 per month. This commitment is in effect until September 2027, twenty years from the Town of Butner's incorporation.

Note 9A. Long-term Liabilities

Changes in Long-term Liabilities:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30,</u> <u>2020</u>	<u>Current</u> <u>Portion</u>
<u>Bonds Payable</u>					
Suntrust	\$ 4,140,867	\$ -	\$ 514,511	\$ 3,626,356	\$ 525,630
USDA	4,509,000	-	75,000	4,434,000	77,000
USDA	5,825,000	-	87,000	5,738,000	90,000
BB&T	2,791,481	-	308,613	2,482,868	319,353
<u>Loans Payable</u>					
DWSRF (ARRA)	51,890	-	4,717	47,173	4,717
DENR (IFS)	613,520	-	43,823	569,697	43,823
DENR (IFS)	21,525,842	-	1,345,365	20,180,477	1,345,365
DENR (IFS)	463,282	-	42,116	421,166	42,117
Net pension liability (LGERS)	611,355	12,661	-	624,016	-
Accrued Vacation Leave	<u>184,815</u>	<u>33,828</u>	<u>-</u>	<u>218,643</u>	<u>218,643</u>
Total Long-Term Liabilities	<u>\$40,717,052</u>	<u>\$ 46,489</u>	<u>\$2,421,145</u>	<u>\$38,342,396</u>	<u>\$2,666,648</u>

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Note 9B. Bonds Payable

At June 30, 2020, the System had bonds outstanding as follows:

<u>Purpose</u>	<u>Series</u>	<u>Final Maturity Date</u>	<u>Original Amount of Issue</u>	<u>Principal paid through June 30, 2020</u>	<u>Principal Outstanding June 30, 2020</u>
Suntrust Bond	2006	10/15/2026	\$ 9,200,000	\$ 5,573,644	\$ 3,626,356
USDA bond	2012	6/1/2052	4,846,000	412,000	4,434,000
USDA bond	2015	6/1/2054	6,220,000	482,000	5,738,000
BB&T bond	2015	3/1/2027	<u>3,935,136</u>	<u>1,452,268</u>	<u>2,482,868</u>
Total Revenue Bonds Payable			<u>\$24,201,136</u>	<u>\$ 7,919,912</u>	<u>\$16,281,224</u>

The bonds were issued in response to the July 23, 2006 session Law 200-159, Senate Bill 491 of the 2005-2006 Legislative Session. SGWASA received the water and sewer system previously owned and operated by the State of North Carolina and a cash reserve for operation and maintenance expenses. In return, the Authority issued this Non-General Obligation Bond to enable it to retire the prior debt issued by the State that was secured by the system.

The State bond of \$8,569,136 was assumed by the Authority and paid off as part of the issuance of the \$9,200,000 bond. The bond was modified on March 15, 2013 to reduce the interest rate.

SGWASA purchased the water/sewer system from the City of Creedmoor effective March 27, 2015 at a cost of \$15,675,000 which was funded by assuming \$4.8 million in revenue bond debt from the City and borrowing an additional \$10.2 million in revenue bond debt.

- An existing USDA revenue bond with a remaining principal of \$4,846,000 was assumed with a remaining term of 38 years of a 40 year 3.5% interest bond. Principal and interest payment is due annually in June.
- A new USDA revenue bond was issued as a \$6,220,000 3.5% interest bond. Principal and interest payment is due annually in June.
- A new BB&T revenue bond was issued as a \$3,935,136 3.48% interest bond. Payments are due semi-annually with an interest only payment due each September and a principal and interest payment due each March.

The rate covenant in the bond documents requires that the Authority's net operating income (revenues less operating expenses [expenses minus depreciation]) be at least 1.2

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times next year's debt service. For the year ended June 30, 2020, the Authority was able to meet that requirement with a ratio of 4.99.

Operating Revenues		\$13,572,186
Total Operating Expenses	\$ 8,121,740	
Less: Depreciation	<u>2,147,090</u>	
Current Expenses		<u>5,974,650</u>
Current Revenues - Current Expenses		\$ 7,597,536
Next year's debt		<u>1,526,875</u>
Ratio		<u>4.98</u>

Annual debt service requirements to maturity for long-term obligations are as follows:

Fiscal Year	Bond Payable		
Ending June 30	Principal	Interest	Total
2021	1,011,983	514,892	1,526,875
2022	1,041,456	486,574	1,528,030
2023	1,070,561	457,379	1,527,940
2024	1,100,317	427,323	1,527,640
2025	1,131,744	396,386	1,528,130
2026-2030	2,720,163	1,605,963	4,326,126
2031-2035	1,269,000	1,350,020	2,619,020
2036-2040	1,508,000	1,111,915	2,619,915
2041-2045	1,790,000	828,905	2,618,905
2046-2050	2,126,000	492,870	2,618,870
2051-2055	<u>1,512,000</u>	<u>118,686</u>	<u>1,630,686</u>
Total Requirements	<u>\$ 16,281,224</u>	<u>\$ 7,790,913</u>	<u>\$ 24,072,137</u>

South Granville Water and Sewer Authority
Butner, North Carolina
Notes to the Financial Statements
June 30, 2020

Note 9C. Loans Payable

At June 30, 2020, the Authority had long-term loans outstanding as follows:

<u>Purpose</u>		<u>Final</u> <u>Payment</u> <u>Date</u>	<u>Original</u> <u>amount of</u> <u>Loan</u>	<u>Principal</u> <u>Paid</u> <u>through</u> <u>June 30,</u> <u>2020</u>	<u>Principal</u> <u>outstanding</u> <u>June 30,</u> <u>2020</u>
DWSRF (ARRA)	2011	5/2/2030	\$ 94,346	\$ 47,173	\$ 47,173
DENR (IFS)	2013	5/1/2033	876,458	306,761	569,697
DENR (IFS)	2016	5/1/2030	673,864	252,698	421,166
DENR (IFS)	2016	5/1/2035	<u>26,907,302</u>	<u>6,726,825</u>	<u>20,180,477</u>
Total Loans Payable			<u>\$ 28,551,970</u>	<u>\$7,333,457</u>	<u>\$ 21,218,513</u>

In July 2009, South Granville Water and Sewer Authority was awarded a grant by the DEQ Public Water Supply. These funds were part of the American Recovery and Reinvestment Act and were for the purpose of installing solar mixers on water tanks to improve water quality. The project was completed in the Spring of 2011 and grant funds received. The total cost of the project was \$188,692 with one-half of this amount, \$94,436, being forgiven. The remaining \$94,436 is to be repaid in twenty annual installments of \$4,717 at 0% interest.

The sewer line rehabilitation project was completed in June 2013 and was funded by NCDEQ IFS for \$876,458 as a 20 year 2% loan. Payments are due semi-annually with an interest only payment due each November and a principal and interest payment due each May.

The wastewater treatment plant project construction phase is complete. The \$26,907,302 as shown reflects total funding.

South Granville Water and Sewer Authority purchased the water/sewer system from the City of Creedmoor effective March 27, 2016 at a cost of \$15,675,000 of which \$823,635 was funded by assuming an existing DENR loan from the City.

- An existing NCDEQ IFS loan with a remaining principal of \$673,864 was assumed with a remaining term of 15 years on a 0% interest loan. Principal payments are due annually in May.

South Granville Water and Sewer Authority
Butner, North Carolina
Notes to the Financial Statements
June 30, 2020

Annual debt service requirements to maturity for long-term obligations are as follows:

Fiscal Year Ending	Loan Payable			
	<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,436,022	\$ 415,004	\$ 1,851,026	
2022	1,436,022	387,220	1,823,242	
2023	1,436,022	359,436	1,795,458	
2024	1,436,022	331,652	1,767,674	
2025	1,436,022	303,868	1,739,890	
2026-2030	7,180,108	1,102,586	8,282,694	
2031-2035	<u>6,858,295</u>	<u>408,869</u>	<u>7,267,164</u>	
Total Requirements	<u>\$ 21,218,513</u>	<u>\$ 3,308,635</u>	<u>\$ 24,527,148</u>	

Note 10. Customer Deposits

Customer deposits are required when opening a new service account and become refundable once an account is closed. The deposit is normally applied to the final bill(s). During the year the deposits increased by \$41,630. Requiring a higher deposit (\$150 instead of \$50) beginning July 1st, 2008 combined with an increase in growth in the number of customers account for the increase. Long-time customers close out accounts that had no deposit or the smaller \$50 deposit and new customers open accounts with the higher \$150 deposit requirement, thus causing an annual increase in total deposit liability.

Note 11. Operating Lease

The Authority leases administrative office space from Town of Butner. The lease payments began on July 1, 2011 for a 20 year term, with two additional ten year renewal options. Rent is \$5,000 per month for the twenty year term, and \$2,300 per month thereafter during any renewal term. Future minimum rental payments for the remaining term are as follows:

2017 – 2032 \$60,000 / year

Note 12. Subsequent Events

The Authority has evaluated events and transactions that occurred between June 30, 2020 and September 15, 2020, which is the date that the financials were available to be issued, for possible recognition or disclosure in the financial statements. There were no events that occurred during this time that were deemed to be significant enough to be disclosed.

SUPPLEMENTARY SCHEDULES

**SOUTH GRANVILLE WATER AND SEWER AUTHORITY
SOUTH GRANVILLE WATER AND SEWER AUTHORITY'S PROPORTIONATE SHARE
OF NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
LAST SEVEN FISCAL YEARS ***

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
SGWASA's proportion of the net pension liability (asset) (%)	0.0023%	0.026%	0.0279%	0.0291%	0.0288%	-0.0291%	0.0300%
SGWASA's proportion of the net pension liability (asset) (\$)	624,016	611,355	425,624	618,236	129,387	(171,439)	366,437
SGWASA's covered-employee payroll	1,663,536	1,668,139	1,624,001	1,576,641	1,523,780	1,485,840	1,486,332
SGWASA's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	37.51%	36.65%	26.21%	39.21%	8.49%	-11.54%	24.65%
Plan fiduciary net position as a percentage of the total pension liability **	91.63%	94.18%	91.47%	98.09%	99.07%	102.64%	94.35%

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

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

**SOUTH GRANVILLE WATER AND SEWER AUTHORITY
SOUTH GRANVILLE WATER AND SEWER AUTHORITY'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST SEVEN FISCAL YEARS**

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 178,740	\$ 128,924	\$ 125,110	\$ 117,740	\$ 105,162	\$ 106,817	\$ 105,049
Contributions in relation to the contractually required contribution	<u>178,740</u>	<u>128,924</u>	<u>125,110</u>	<u>117,740</u>	<u>105,162</u>	<u>106,817</u>	<u>105,049</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SGWASA's covered-employee payroll	1,997,097	1,663,536	1,668,139	1,624,001	1,576,641	1,523,780	1,485,840
Contributions as a percentage of covered-employee payroll	8.95%	7.75%	7.50%	7.25%	6.67%	7.01%	7.07%

**SOUTH GRANVILLE WATER AND SEWER AUTHORITY
BUTNER, NORTH CAROLINA
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (NON GAAP)
FOR THE YEAR ENDED JUNE 30, 2020**

	Original	Final	Actual	Variance Favorable (Unfavorable)
Operating Revenues				
Water	\$ 4,800,000	\$ 4,800,000	\$ 5,210,358	\$ 410,358
Wastewater	7,600,000	7,600,000	7,918,610	318,610
Other	227,500	366,587	443,218	76,631
Total Operating Revenues	<u>12,627,500</u>	<u>12,766,587</u>	<u>13,572,186</u>	<u>805,599</u>
Operating Expenses				
Administration	858,900	1,030,902	910,016	120,886
Billing/Collections	367,300	371,300	335,699	35,601
Water Supply, distribution, and treatment	1,563,400	1,537,400	1,319,706	217,694
Wastewater treatment and collection	1,812,500	1,664,736	1,392,687	272,049
Meter reading	121,000	120,500	91,537	28,963
Maintenance: water line	589,800	591,300	442,842	148,458
Maintenance: sewer line	655,150	656,150	531,038	125,112
Pump stations, lift stations, water towers	487,250	485,150	331,411	153,739
Miscellaneous non-departmental expenses	2,389,600	2,385,600	2,316,176	69,424
Projects and studies	-	15,168,168	1,053,613	14,114,555
Repairs and maintenance-all departments	679,811	713,075	531,030	182,045
Total Expenditures	<u>9,524,711</u>	<u>24,724,281</u>	<u>9,255,755</u>	<u>15,468,526</u>
Debt Service				
Bond debt (principal/interest)	1,528,450	1,528,450	1,523,010	5,440
Loan debt (principal/interest)	1,879,335	1,879,335	1,874,178	5,157
Debt related expenses-Town of Butner	500,000	500,000	500,000	-
Total Debt Service	<u>3,907,785</u>	<u>3,907,785</u>	<u>3,897,188</u>	<u>10,597</u>
Non-Operating Revenues (Expenses)				
Investment Earnings	275,000	325,000	362,104	37,104
Total Non-operating Revenues (Expenses)	<u>275,000</u>	<u>325,000</u>	<u>362,104</u>	<u>37,104</u>
Excess of revenues over (under) expenses before other financing sources	(529,996)	(15,540,479)	781,347	16,321,826
Other Financing Sources (Uses)				
Federal and State Grants	-	405,667	405,667	-
Appropriated Fund Balance	529,996	15,134,812	-	(15,134,812)
Total other financing sources	<u>529,996</u>	<u>15,540,479</u>	<u>405,667</u>	<u>(15,134,812)</u>
Revenues and other sources over (under) expenses and other uses	<u>\$ -</u>	<u>\$ -</u>	1,187,014	<u>\$ 1,187,014</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:				
Reconciling items:				
Capital Outlay			1,215,941	
Capital Projects - WWTP Exhibit 7			-	
Deferred outflows of resources for contributions made to pension plan in current fiscal year			178,740	
Pension expense			(260,667)	
Principal retirement			2,421,146	
Change in net assets			<u>\$ 4,742,174</u>	

The notes to the Financial Statements are an integral part of the financial statements.

COMPLIANCE SECTION

Winston, Williams, Creech, Evans, & Company, LLP

Certified Public Accountants



America Counts on CPAs

Gary L. Williams, CPA
Carleen P. Evans, CPA
Jennifer T. Reese, CPA
Tara H. Roberson, CPA

Curtis G. Van Horne, CPA

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

Board Members
South Granville Water and Sewer Authority
Butner, 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, the accompanying financial statements of South Granville Water and Sewer Authority as of and for the year ended June 30, 2020 and the related notes to the financial statements, and have issued our report thereon dated September 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Granville Water and Sewer Authority's internal control over financial reporting (internal control) to determine the 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 South Granville Water and Sewer Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of significant 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 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 the internal control was for 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

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deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Winston, Williams, Creech, Evans & Co., LLP

Oxford, North Carolina
September 15, 2020

**SOUTH GRANVILLE WATER AND SEWER AUTHORITY
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2020**

Section II - Financial Statement Findings

None reported

**SOUTH GRANVILLE WATER AND SEWER AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Prior Year Audit Findings:

Financial Statement Findings

None reported.

Federal Award Findings

None Reported

SGWASA

June 30, 2020

Audit Presentation

*Winston, Williams, Creech, Evans &
Company, LLP*

Overview



- For the 2020 audit there are no findings to report for either the financial statements.
- For the 2020 year, SGWASA was a Yellow Book Audit which means there were less than \$750,000 in federal expenditures.

Government Wide Statements

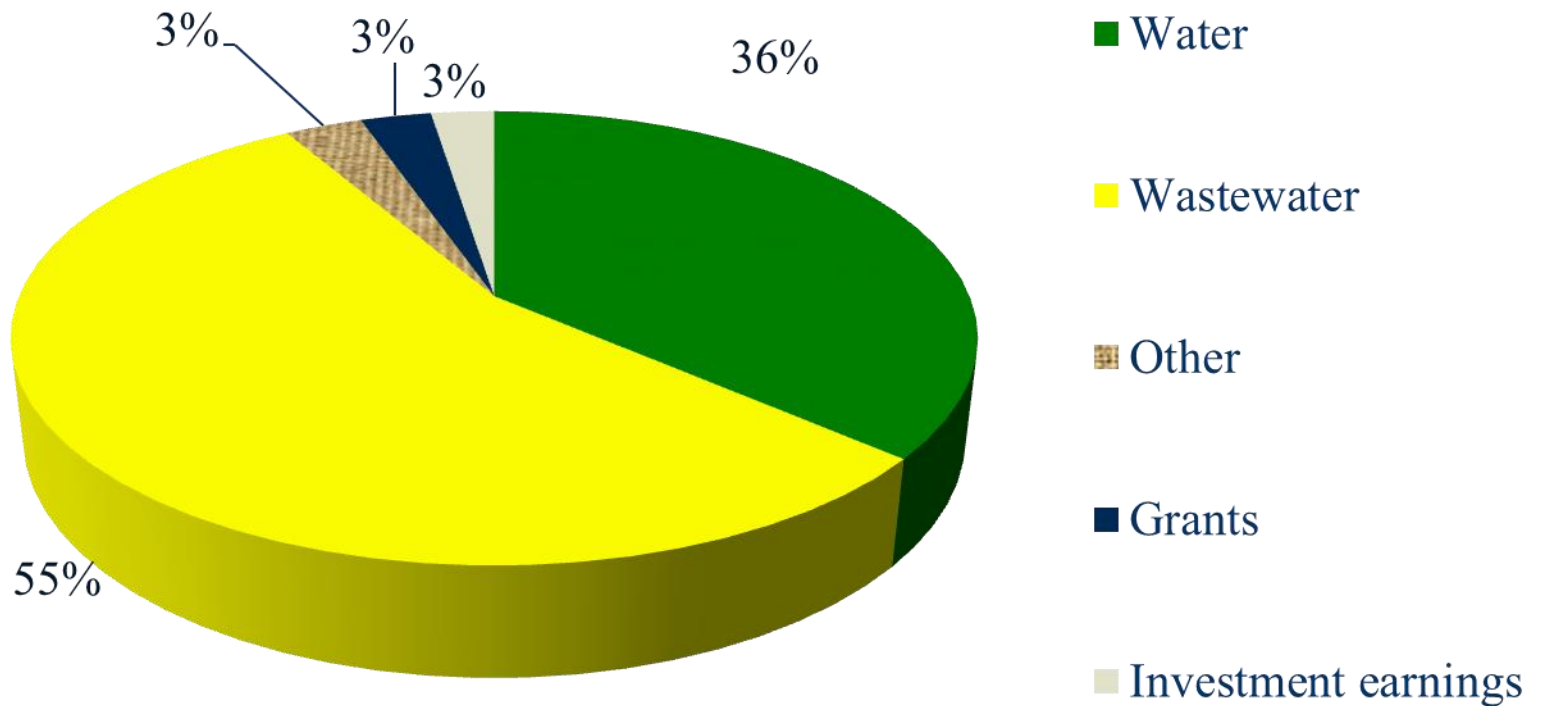
Statement of Net Position

	<u>2019</u>	<u>2020</u>
Total Assets &		
Deferred Outflows	\$ 89,089,028	\$ 91,326,766
Total Liabilities		
& Deferred Inflows	<u>41,941,425</u>	<u>39,436,989</u>
Net Position	\$ 47,147,603	\$ 51,889,777

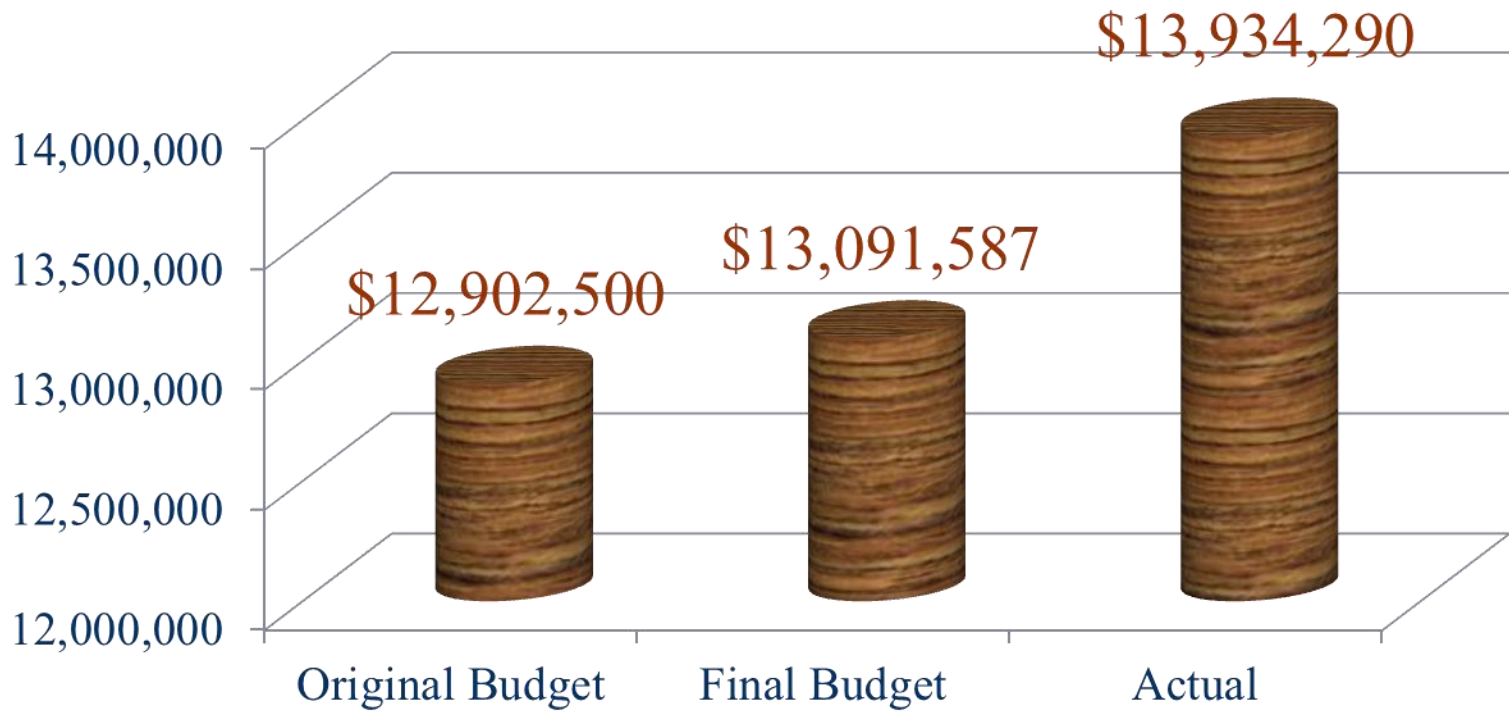
Statement of Activities

	2019	2020
Revenues	\$ 14,759,442	\$ 14,339,957
Expenditures	<u>8,961,309</u>	<u>9,597,783</u>
Change in Net Position	\$ 5,798,133	\$ 4,742,174
Beginning Net Position	<u>41,349,470</u>	<u>47,147,603</u>
Ending Net Position	\$ 47,147,603	\$ 51,889,777

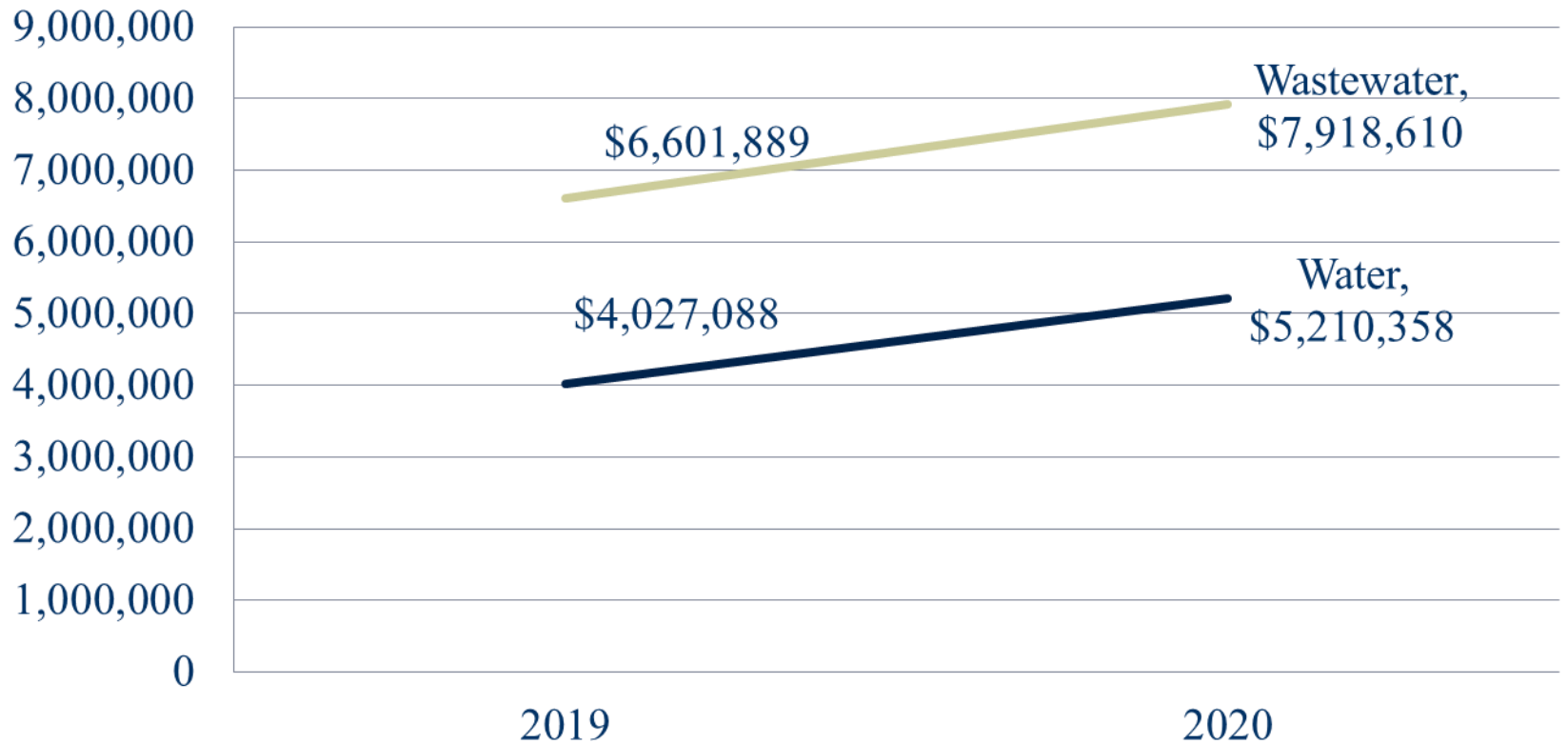
Revenues (Non GAAP)



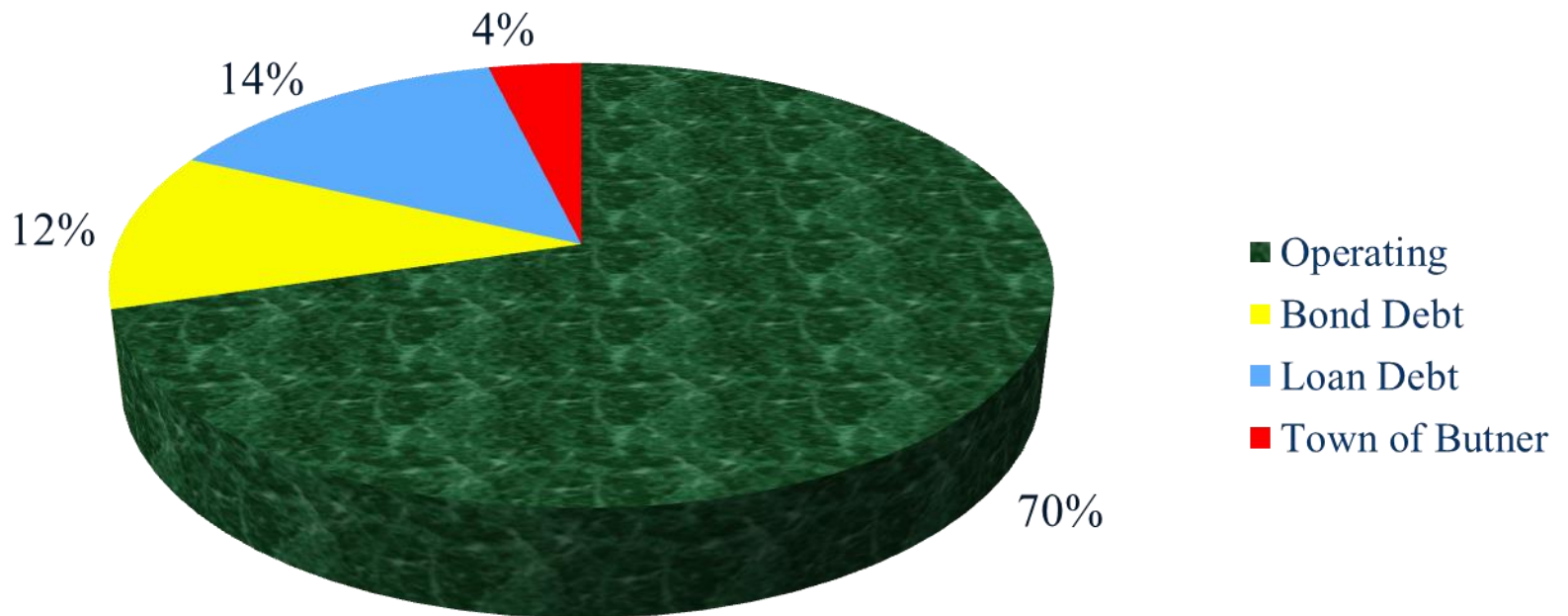
Revenues-Budget vs. Actual



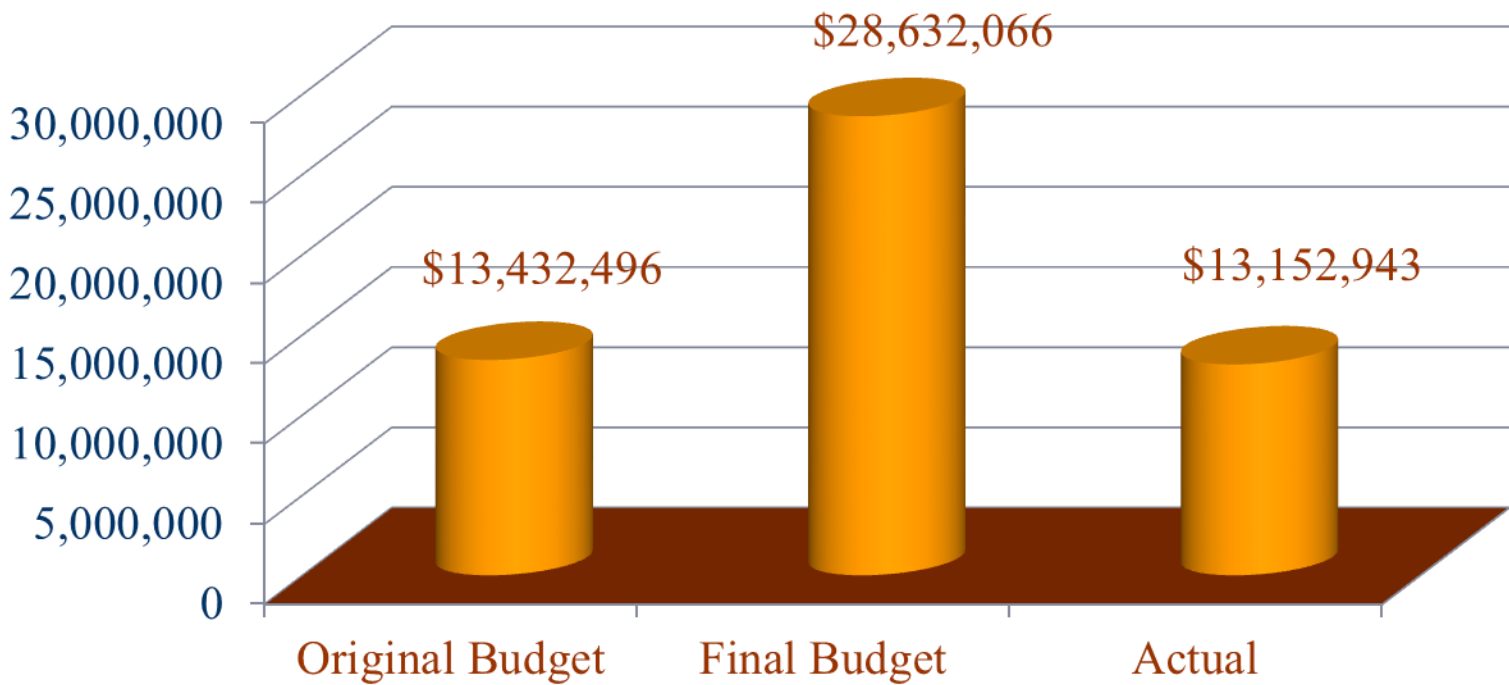
Water/Sewer Revenues



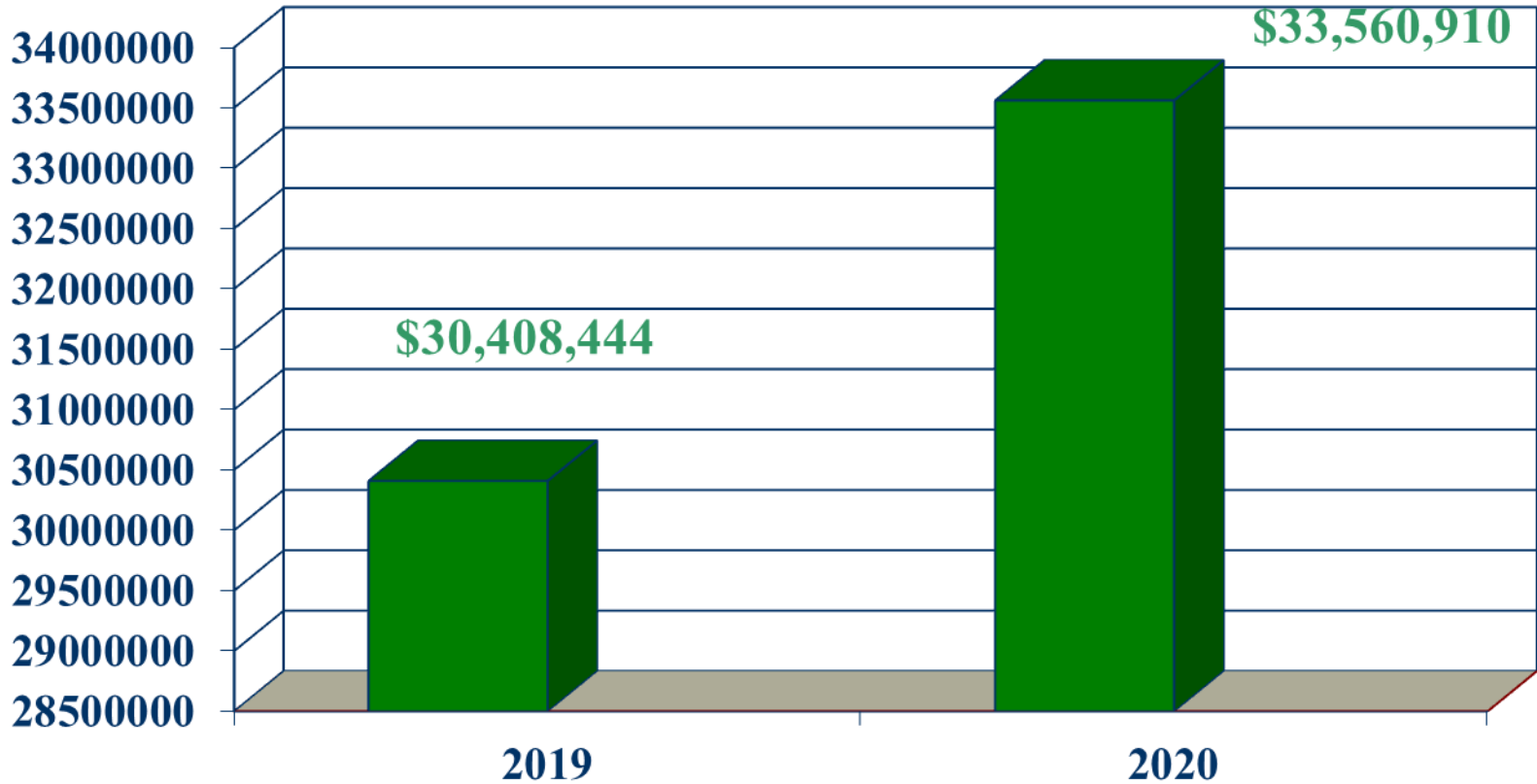
Expenditures (Non-GAAP)



Expenditures-Budget vs. Actual

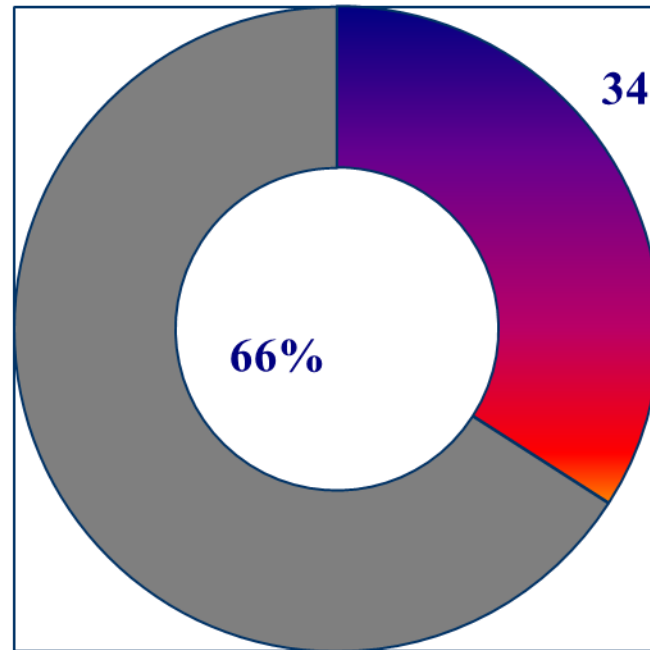


Cash





Fund Balance



- Net Investment in Capital Assets
- Unrestricted

Loans Outstanding

	Balance at June 30
Public Water Supply/Fed Revolving Loan (ARRA)	\$ 47,173
Clean Water Revolving Loan #1 Sewerline Reahab	569,697
Clean Water Revolving Loan #2 WWTP Upgrade Phase I	20,180,477
DENR loan assumed from Creedmoor	<u>421,166</u>
Total outstanding loans	\$ 21,218,513

Bonds Outstanding

Suntrust	\$ 3,626,356
USDA (assumed from Creedmoor)	4,434,000
USDA (to acquire Creedmoor)	5,738,000
BB&T (to acquire Creedmoor)	<u>2,482,868</u>
Total bonds	\$ 16,281,224

