

**SOUTH GRANVILLE WATER
AND SEWER AUTHORITY**

Butner, North Carolina

Financial Statement

Year Ended June 30, 2022

Board of Directors

Jimmy Gooch, Chairman
Georgana Kicinski, Vice-Chair
Linda Jordon
Tim Karan
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Robert Way

Staff

Scott N Schroyer, Executive Director
Richard Balmer, Finance Officer

South Granville Water and Sewer Authority
Financial Statement
June 30, 2022

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

Certified Public Accountants



America Counts on CPAs

Gary L. Williams, CPA
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Curtis G. Van Horne, CPA

Independent Auditor's Report

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

Opinions

We have audited the accompanying financial statements of the South Granville Water and Sewer Authority, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority'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 respective financial position of the South Granville Water and Sewer Authority as of June 30, 2022, and the respective changes in financial position, and cash flows where applicable, thereof for the year 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. 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 the South Granville Water and Sewer Authority, 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 basis for our audit opinions.

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Responsibility of Management 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 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 the South Granville Water and Sewer Authority'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 Responsibility 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 *Governmental Auditing Standards* will always detect a material misstatement 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 *Governmental Auditing Standards*, we:

- Exercise professional judgment 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 the South Granville Water and Sewer'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 the South Granville Water and Sewer Authority's ability to continue as a going concern for a 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 on pages 6-12 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 38 and 39, respectively 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 the 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. 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, based on our audit, the financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2022 on our consideration of the 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 that

report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the South Granville Water and Sewer Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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, 2022

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, 2022. 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 \$60 million, which reflects a \$4.9 million increase over prior year and includes 3.8 million designated for capital improvement.

Customer revenue of \$14.6 million and related expenses resulted in an operating income of \$5.8 million. Non-operating income and expenses combined with contributed capital created a net income (increase in net assets) of \$4.9 million.

Existing bond debt had a year-end balance of \$14.2 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.

	2022	2021	2020
Operating Revenues			
Water service	\$5,659,318	\$5,230,458	\$5,210,358
Waste Water service	8,509,309	7,945,380	7,918,610
Service Initiation & Other	467,704	363,249	443,218
Total Operating Revenues	\$14,636,331	\$13,539,087	\$13,572,186

Non-Operating Revenues

	2022	2021	2020
Non-Operating Revenues			
Investment Income	\$27,519	\$5,449	\$362,104
Grants	237,571	-	405,667
Contributed Capital	152,377	-	-
Gain on Sale of Capital Asset	47,130	56,023	-
Total non-operating revenues	\$464,597	\$61,472	\$767,771

Total Revenues

Total revenue of \$15,100,928 was higher than originally projected. The pandemic has created somewhat unpredictable usage trends that were not included in original budgetary projections. Total non-billing revenue resulting from allocation fees, tap fees, and customer penalties was slightly higher than anticipated due to conservation budget practices and unpredictability of those revenue streams. Investment revenue for the fiscal year was higher than originally expected due to rising interest rates at the end of the fiscal year. Grant revenue provided from American Rescue Plan Act (ARPA) funding was received for engineering services related to the Sewer Collection System I-85 Project.

Expenses

Operating Expenses

	2022	2021	2020
General and administrative	\$1,933,763	\$1,796,968	\$1,656,723
Water supply, treatment and distribution	1,386,138	1,356,144	1,402,070
Waste Water treatment and collections	1,623,482	1,879,979	1,510,114
Meter reading and Maintenance	1,336,275	1,372,903	944,739
Pump and lift stations	509,702	516,945	461,004
Amortization	55,161	-	-
Depreciation	1,995,764	2,029,622	2,147,090
Total operating expenses	\$8,840,285	\$8,952,561	\$8,121,740

Non-Operating Expenses

	2022	2021	2020
Debt related expense-Town of Butner	\$ 500,000	\$ 500,000	\$ 500,000
Interest Expense	864,319	920,580	976,043
Total non-operating expenses	\$1,364,319	\$ 1,420,580	\$1,476,043

Total expenses of \$10,204,604 were comparable to projections.

Capital Asset & Debt Administration

Capital Assets – SGWASA’s capital assets as of June 30, 2022 totaled \$66,331,195 (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:

	<u>Balance</u> <u>July 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2022</u>	<u>Current</u> <u>Portion</u>
<u>Bonds Payable</u>					
Suntrust	\$ 3,100,725	\$ -	\$ 536,990	\$ 2,563,735	\$ 548,595
USDA	4,357,000	-	80,000	4,277,000	83,000
USDA	5,648,000	-	94,000	5,554,000	97,000
BB&T	2,163,515	-	330,466	1,833,049	341,966
<u>Loans Payable</u>					
<u>DENR-DWSRF</u>					
(ARRA)	42,456	-	4,717	37,739	4,717
DENR (ISF)	525,875	-	43,823	482,052	43,823
DENR (ISF)	18,835,112	-	1,345,365	17,489,747	1,345,365
DENR (ISF)	379,049	-	42,117	336,932	42,117
Net pension liability	945,529	-	433,768	511,761	-
Accrued Vacation Leave	249,702	-	26,942	222,760	222,760
Lease Liability	-	551,610	51,706	499,904	51,799
	<u>\$36,246,963</u>	<u>\$ 551,610</u>	<u>\$2,989,894</u>	<u>\$33,808,679</u>	<u>\$2,781,142</u>

Bonds Payable - At June 30, 2022, 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, 2022</u>	<u>Principal Outstanding June 30, 2022</u>
Redemption of State of NC Series 2001 Butner Water and Sewer System Revenue Bonds	2006	10/15/2026	\$ 9,200,000	\$6,636,265	\$ 2,563,735
USDA Bond (assumed from City of Creedmoor)	2012	6/1/2052	4,846,000	569,000	4,277,000
USDA Bond (to acquire City of Creedmoor system)	2015	6/1/2054	6,220,000	666,000	5,554,000
BB&T Bond (to acquire City of Creedmoor system)	2015	3/1/2027	<u>3,935,136</u>	<u>2,102,087</u>	<u>1,833,049</u>
			<u>\$24,201,136</u>	<u>\$9,973,352</u>	<u>\$14,227,784</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 remain stable or increase slightly for the 2022-2023 fiscal year. The Authority's governing Board approved the budget with no rate increase. Rates are projected to fund 90% of depreciation and the capital improvement plan. Use of fund balance is currently budgeted for partial funding of depreciation and increased operating expenses projected in fiscal year 2022-2023.

The budget for fiscal year 2022-2023 includes a 2% wage adjustment, an average merit pay increase of 2%, and a matching option for 401k up to 1% of pay. Additional increases include changes in personnel resulting from a revised Organization Chart. 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/or 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, 2022**

EXHIBIT 1

Assets		
Current Assets		
Cash and cash equivalents	\$	24,445,277
Receivables:		
Trade accounts		2,631,775
Receivable from other governments		490,160
Inventory		519,815
Total Current Assets		28,087,027
Non-current Assets		
Right to use leased asset, net of amortization		496,449
Capital Assets		
Land and construction in progress		467,840
Depreciable (Net of accumulated depreciation)		65,863,355
Total Capital Assets		66,331,195
Total Non-current Assets		66,827,644
Total Assets		94,914,671
Deferred Outflows of Resources		
Contributions to pension plan in current fiscal year		914,235
Total Assets and Deferred outflows of resources		95,828,906
Liabilities and Net Assets		
Current Liabilities		
Trade Payables		443,649
Customer deposits and advances		702,071
Accrued interest payable		112,248
Payroll liabilities		4,411
Current portion of long term liabilities		2,781,142
Total Current Liabilities		4,043,521
Non-Current Liabilities		
Net Pension Liability		511,761
Due in more than one year		30,515,776
Total Non-Current Liabilities		31,027,537
Total Liabilities		35,071,058
Deferred Inflows of Resources		
		744,329
Net Position		
Net investment in capital assets		33,756,941
Unrestricted		26,256,578
Total Net Position		60,013,519
Total Liabilities, Deferred Inflows and Net Position	\$	95,828,906

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, 2022**

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Operating Revenues	
Water	\$ 5,659,318
Wastewater	8,509,309
Other	467,704
Total Operating Revenues	14,636,331
Operating Expenses	
Administration	565,332
Human Resources	79,243
Engineering	185,563
Billing/Collections	366,417
Water Supply, distribution, and treatment	1,386,138
Wastewater treatment and collection	1,623,482
Utilities:	
Meter reading	102,279
Maintenance: water line	611,145
Maintenance: sewer line	622,851
Pump stations, lift stations, water towers	509,702
Board/clerk and non-departmental expenses	574,498
Insurance	162,710
Amortization	55,161
Depreciation	1,995,764
Total Operating Expenses	8,840,285
Operating Income	5,796,046
Non-operating revenues (expenses)	
Investment income	27,519
Legislative ARPA Grant (Collection System)	237,571
Gain (loss) on Sale of Fixed Assets	47,130
Debt related expense-Town of Butner	(500,000)
Interest expense	(864,319)
Total Non-operating Revenues (Expenses)	(1,052,099)
Inocme (Loss) Before Contributions and Change in Net Position	4,743,947
Contributions:	
Contributed Capital - Local Governments (IAIA Agreement)	152,377
Change in Net Position	4,896,324

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, 2022**

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Cash Flows From Operating Activities	
Receipts from customers	\$ 13,401,044
Payments for goods and services	(4,519,512)
Payments to employees and fringe benefits	(3,259,971)
Customer deposits	27,438
Other receipts	467,704
Net cash provided by operating activities	6,116,703
 Cash Flows From Capital and Related Financing Activities	
Interest paid on bond maturities	(873,794)
Principal paid on long term debt	(2,477,478)
Principal paid on capital lease	(51,706)
Proceeds from capital debt	101,417
Debt related expense-Town of Butner	(500,000)
Proceeds from Sale of Assets	58,546
Capital Contributions	51,924
Purchase of Capital Assets	(6,382,641)
Net cash provided by (used in) capital and related financing activities	(10,073,732)
 Cash flows From Investing Activities	
Investment income	27,519
Net increase (decrease) in cash and cash equivalents	(3,929,510)
 Cash and cash equivalents at beginning of year	28,374,787
Cash and cash equivalents at end of year	\$ 24,445,277
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 5,796,046
Adjustments to reconcile operating income to net cash Provided (used) by operating activities:	
Depreciation	1,995,764
Amortization	55,161
Changes in assets and liabilities:	
(Increase) Decrease in Trade Receivables	(767,581)
(Increase) Decrease in Receivable from other Governments	156,380
(Increase) Decrease in Vendor deposits	42,619
(Increase) Decrease in Inventory	(182,857)
(Increase) Decrease in Deferred Outflows of resources for Pensions	(291,642)
Increase (Decrease) in Customer Deposits	27,438
Increase (Decrease) in Net Pension Liability	(433,768)
Increase (Decrease) in Deferred Inflows of resources for Pensions	718,383
Increase (Decrease) in Accounts payable	(974,222)
Increase (Decrease) in Other accrued liabilities	1,924
Increase (Decrease) in Compensated absences	(26,942)
Total adjustments	320,657
Net cash provided by operating activities	\$ 6,116,703

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, 2022

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, 2022

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 (G.S. 159-30(c)) authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies;

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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. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. Because the NCCMT Government has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

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. Right to use assets

The Authority has recorded a right to use asset as a result of implementing GASB 87. The right to use asset is 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 asset is amortized on a straight-line basis over the life of the related lease.

6. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Authority has one item that meets this criterion, pension deferrals for the 2021 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Authority has one item that meets the criterion for this category – pension deferrals.

7. 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.

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All vacation pay is accrued when incurred in the basic financial statements, but is limited to thirty days. At June 30, 2022, the Authority had recorded a liability for accrued vacation and the salary-related payments of \$222,760.

8. 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 \$4,821 interest only payment in November of 2022 and a \$48,643 principal and interest loan payment to NC DEQ in May of 2023 for the recent sewer line rehabilitation loan.

SGWASA has an obligation to pay a \$174,897 interest only payment in November of 2022 and a \$1,520,263 principal and interest loan payment to NC DEQ in May of 2023 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 2023 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 2023 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 2023 for a revenue bond that financed part of the acquisition of the water and sewer system from the City of Creedmoor on March 27,

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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 2022 and a principal and interest payment in March of 2023 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.

Capital Leases

On July 1, 2011, the Authority entered into a 240 month lease as lessee for the use of administrative office space at 415B Central Avenue in Butner, North Carolina. With implementation of GASB 87, as of June 30, 2022, the Authority recorded a value of the lease asset of \$551,610, accumulated amortization of \$55,161, and an end of year liability of \$499,904. The Authority is required to make monthly fixed principal and interest payments of \$5,000. The lease has an interest rate of 1.722%. The building's estimated useful life was 480 months as of the contract commencement. The value of the deferred outflow of resources as of June 30, 2022 was \$914,235, and the Authority recognized lease expenses of \$51,706 principal and \$8,294 interest during the fiscal year. The Authority has two extension option(s), each for 10 months.

9. 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."

10. 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

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the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

11. Defined Benefit Cost-Sharing Plans

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

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At June 30, 2022, the Authority's deposits had a carrying amount of \$7,366,914 and a bank balance of \$7,318,175. Of the bank balance, \$250,000 was covered by federal depository insurance and \$7,068,175 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, 2022.

At June 30, 2022, the Authority had \$17,076,563 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's.

The Authority has no policy regarding credit risk.

Note 4. Receivables

Receivables at June 30, 2022 were as follows:

Trade accounts receivable		\$ 2,631,775
Accounts receivable sales tax refund	152,136	
Accounts receivable other	<u>338,024</u>	
		<u>490,160</u>
Total receivables		<u>\$ 3,121,935</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:

	Balance July 1, 2021	Increases	Decreases	Balance June 30, 2022
Capital Assets, Non-depreciable				
Land	\$ 33,450	\$ -	\$ -	\$ 33,450
Construction in Progress (CIP)	10,362,863	6,241,795	16,170,268	434,390
Total Capital Assets, Non-depreciable	10,396,313	6,241,795	16,170,268	467,840
Capital Assets, Depreciable				
Buildings	34,230,255	16,170,268	-	50,400,523
Furniture & Fixtures	18,903	-	-	18,903
Machinery & Equipment	1,316,595	12,526	34,248	1,294,873
Other Improvements	34,550,142	128,320	-	34,678,462
Total Capital Assets, Depreciable	70,115,895	16,311,114	34,248	86,392,761
Less Accumulated Depreciation / Amortization for:				
Buildings	7,540,642	682,580	-	8,223,222
Machinery & Equipment	961,837	94,232	22,832	1,033,237
Other Improvements	10,053,995	1,218,952	-	11,272,947
Total Accumulated Depreciation	18,556,474	1,995,764	22,832	20,529,406
Total Capital Assets, Depreciable Net	51,559,421			65,863,355
Capital Assets, Net	\$ 61,955,734			\$ 66,331,195

Note 6. Right to Use Leased Asset

The Authority has recorded one right to use leased asset. The asset is a right to use asset for leased property. The related lease is discussed in the Leases subsection of the Liabilities section of this note. The right to use lease asset is amortized on a straight-line basis over the terms of the related lease.

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Right to use asset activity for the Authority for the year ended June 30, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Right to use asset				
Leased property	\$ -	\$ 551,610	\$ -	\$ 551,610
Less accumulated amortization for:	-			
Leased property	-	55,161	-	55,161
Right to use asset, net	\$ -	\$ 496,449	\$ -	\$ 496,449

Note 7. 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 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.

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

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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, 2022, was 11.35% 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 SGWASA were \$273,680 for the year ended June 30, 2022.

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, 2022, SGWASA reported a liability of \$511,761 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2020. The total pension liability was then rolled forward to the measurement date of June 30, 2021 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, 2021 (measurement date), SGWASA's proportion was .03337%, which was an increase of 0.00691% from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, SGWASA recognized pension expense of \$266,655. At June 30, 2022, SGWASA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 162,810	\$ -
Changes of assumptions	321,517	-
Net difference between projected and actual earnings on pension plan investments	-	731,153
Changes in proportion and differences between SGWASA contributions and proportionate share of contributions	156,228	13,176
SGWASA contributions subsequent to the measurement date	<u>273,680</u>	<u>-</u>
Total	<u>\$ 914,235</u>	<u>\$ 744,329</u>

\$273,680 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, 2023. Other amounts reported as deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ended June 30:

2023	\$ 97,555
2024	38,430
2025	(16,022)
2026	(223,737)
2027	-
Thereafter	-

Actuarial Assumptions. The total pension liability in the December 31, 2020 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 productivity factor
Investment rate of return	6.5 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

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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, 2020 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 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, 2021 are summarized in the following table:

Asset Class	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	<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 2020 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.

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Discount rate. The discount rate used to measure the total pension liability was 6.5%. 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 6.5 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 (5.5 percent) or one percentage point higher (7.5 percent) than the current rate:

	1% Decrease <u>(5.5%)</u>	Discount Rate <u>(6.5%)</u>	1% Increase <u>(7.5%)</u>
SGWASA’s proportionate share of the net pension liability (asset)	\$1,986,614	\$511,761	(\$701,957)

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.

Note 8. 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.

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Note 9. 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.

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 10A. Long-term Liabilities

Changes in Long-term Liabilities:

	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022	Current Portion
<u>Bonds Payable</u>					
Suntrust	\$ 3,100,725	\$ -	\$ 536,990	\$ 2,563,735	\$ 548,595
USDA	4,357,000	-	80,000	4,277,000	83,000
USDA	5,648,000	-	94,000	5,554,000	97,000
BB&T	2,163,515	-	330,466	1,833,049	341,966
<u>Loans Payable</u>					
DWSRF (ARRA)	42,456	-	4,717	37,739	4,717
DENR (IFS)	525,875	-	43,823	482,052	43,823
DENR (IFS)	18,835,112	-	1,345,365	17,489,747	1,345,365
DENR (IFS)	379,049	-	42,117	336,932	42,117
Net pension liability (LGERS)	945,529	-	433,768	511,761	-
<u>Accrued Vacation</u>					
Leave	249,702	-	26,942	222,760	222,760
Lease Liability	-	<u>551,610</u>	<u>51,706</u>	<u>499,904</u>	<u>51,799</u>
Total Long-Term Liabilities	<u>\$36,246,963</u>	<u>\$551,610</u>	<u>\$2,989,894</u>	<u>\$33,808,679</u>	<u>\$2,781,142</u>

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Note 10B. Bonds Payable

At June 30, 2022, 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, 2021</u>	<u>Principal Outstanding June 30, 2022</u>
Suntrust Bond	2006	10/15/2026	\$ 9,200,000	\$ 6,636,265	\$ 2,563,735
USDA bond	2012	6/1/2052	4,846,000	569,000	4,277,000
USDA bond	2015	6/1/2054	6,220,000	666,000	5,554,000
BB&T bond	2015	3/1/2027	<u>3,935,136</u>	<u>2,102,087</u>	<u>1,833,049</u>
Total Revenue Bonds Payable			<u>\$24,201,136</u>	<u>\$ 9,973,352</u>	<u>\$14,227,784</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

South Granville Water and Sewer Authority
Butner, North Carolina
Notes to the Financial Statements
June 30, 2022

times next year's debt service. For the year ended June 30, 2022, the Authority was able to meet that requirement with a ratio of 5.14.

Operating Revenues		\$14,636,331
Total Operating Expenses	\$ 8,840,285	
Less: Amortization	55,161	
Less: Depreciation	<u>1,995,764</u>	
Current Expenses		<u>6,789,360</u>
Current Revenues - Current Expenses		\$ 7,846,971
Next year's debt		<u>1,527,940</u>
Ratio		<u><u>5.14</u></u>

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

Fiscal Year	<u>Bond Payable</u>		Total
<u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,162,861	364,514	1,527,375
2027	895,303	333,058	1,228,361
2028-2032	1,144,000	1,474,445	2,618,445
2033-2037	1,359,000	1,259,650	2,618,650
2038-2042	1,615,000	1,004,500	2,619,500
2043-2047	1,918,000	701,400	2,619,400
2048-2052	2,276,000	341,495	2,617,495
2053-2057	<u>554,998</u>	<u>29,296</u>	<u>584,294</u>
Total Requirements	<u>\$ 14,227,784</u>	<u>\$ 6,789,446</u>	<u>\$ 21,017,230</u>

South Granville Water and Sewer Authority
Butner, North Carolina
Notes to the Financial Statements
June 30, 2022

Note 10C. Loans Payable

At June 30, 2022, 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>2022</u>	<u>Principal</u> <u>outstanding</u> <u>June 30,</u> <u>2022</u>
DWSRF (ARRA)	2011	5/2/2030	\$ 94,346	\$ 56,607	\$ 37,739
DENR (IFS)	2013	5/1/2033	876,458	394,406	482,052
DENR (IFS)	2016	5/1/2030	673,864	336,932	336,932
DENR (IFS)	2016	5/1/2035	<u>26,907,302</u>	<u>9,417,555</u>	<u>17,489,747</u>
Total Loans Payable			<u>\$ 28,551,970</u>	<u>\$10,205,500</u>	<u>\$18,346,470</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, 2015 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, 2022

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

Fiscal Year Ending	<u>Loan Payable</u>			
	<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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		1,436,022	276,085	1,712,107
2027		1,436,022	248,301	1,684,323
2028-2032		7,086,442	824,748	7,911,190
2033-2037		<u>4,079,918</u>	<u>162,320</u>	<u>4,242,238</u>
Total Requirements		<u>\$ 18,346,470</u>	<u>\$ 2,506,410</u>	<u>\$ 20,852,880</u>

Note 10D. Capital Leases

The following is an analysis of the assets recorded under capital leases at June 30, 2022:

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2022, were as follows:

Fiscal Year Ending	Principal	Interest	<u>Total</u>
	<u>Payments</u>	<u>Payments</u>	
2023	\$ 51,799	\$ 8,201	\$ 60,000
2024	52,698	7,302	60,000
2025	53,613	6,387	60,000
2026	54,543	5,457	60,000
2027-2037	<u>287,251</u>	<u>12,749</u>	<u>300,000</u>
	<u>\$ 499,904</u>	<u>\$ 40,096</u>	<u>\$ 540,000</u>

Note 11. 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 \$27,438. 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.

South Granville Water and Sewer Authority
Butner, North Carolina
Notes to the Financial Statements
June 30, 2022

Note 12. 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 13. Subsequent Events

The Authority has evaluated events and transactions that occurred between June 30, 2022 and September 15, 2022, 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.

The Covid-19 pandemic, which began in a prior fiscal year, continues at the date of these financial statements. The overall impact of the pandemic on the change in net position of the Authority is not determinable at this time.

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 NINE FISCAL YEARS ***

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

	<u>2022</u>	<u>2021</u>	<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) (%)	0.03370%	0.02646%	0.0230%	0.026%	0.0279%	0.0291%	0.0288%	-0.0291%	0.0300%
SGWASA's proportion of the net pension liability (asset) (\$)	511,761	945,529	624,016	611,355	425,624	618,236	129,387	(171,439)	366,437
SGWASA's covered-employee payroll	2,392,986	1,997,097	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	21.39%	47.35%	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%	96.45%	96.45%

* 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 NINE FISCAL YEARS**

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 273,680	\$ 242,888	\$ 178,740	\$ 128,924	\$ 125,110	\$ 117,740	\$ 105,162	\$ 106,817	\$ 105,049
Contributions in relation to the contractually required contribution	<u>273,680</u>	<u>242,888</u>	<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>	<u>\$ -</u>	<u>\$ -</u>
SGWASA's covered-employee payroll	2,411,273	2,392,986	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	11.35%	10.15%	8.95%	7.75%	7.50%	7.25%	6.67%	7.01%	7.07%

EXHIBIT 6

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, 2022

	Original	Final	Actual	Variance Favorable (Unfavorable)
Operating Revenues				
Water	\$ 5,300,000	\$ 5,500,000	\$ 5,659,318	\$ 159,318
Wastewater	8,050,000	8,300,000	8,509,309	209,309
Other	217,000	408,000	467,704	59,704
Total Operating Revenues	<u>13,567,000</u>	<u>14,208,000</u>	<u>14,636,331</u>	<u>428,331</u>
Operating Expenses				
Administration	715,695	753,085	604,655	148,430
Human Resources	110,811	107,143	84,740	22,403
Engineering	254,679	242,679	199,006	43,673
Billing/Collections	399,103	428,103	389,585	38,518
Water Supply, distribution, and treatment	1,708,487	1,708,087	1,325,044	383,043
Wastewater treatment and collection	1,752,188	1,837,288	1,534,757	302,531
Meter reading	131,950	144,387	117,565	26,822
Maintenance: water line	508,110	730,563	407,158	323,405
Maintenance: sewer line	826,207	842,207	656,070	186,137
Pump stations, lift stations, water towers	363,800	502,520	421,995	80,525
Miscellaneous non-departmental expenses	2,478,292	2,825,072	2,521,478	303,594
Projects and studies	-	12,363,247	6,235,188	6,128,059
Repairs and maintenance-all departments	683,086	1,042,578	732,711	309,867
Total Expenditures	<u>9,932,408</u>	<u>23,526,959</u>	<u>15,229,952</u>	<u>8,297,007</u>
Debt Service				
Bond debt (principal/interest)	1,529,500	1,529,500	1,523,185	6,315
Loan debt (principal/interest)	1,823,635	1,823,635	1,818,611	5,024
Debt related expenses-Town of Butner	500,000	500,000	500,000	-
Total Debt Service	<u>3,853,135</u>	<u>3,853,135</u>	<u>3,841,796</u>	<u>11,339</u>
Non-Operating Revenues (Expenses)				
Investment Earnings	-	15,000	27,519	12,519
Gain (loss) on Sale of Fixed Assets	-	-	47,130	47,130
Total Non-operating Revenues (Expenses)	<u>-</u>	<u>15,000</u>	<u>74,649</u>	<u>59,649</u>
Excess of revenues over (under) expenses before other financing sources	(218,543)	(13,157,094)	(4,360,768)	8,796,326
Other Financing Sources (Uses)				
Legislative ARPA Grant (Collection System)	-	5,352,900	237,571	(5,115,329)
Appropriated Fund Balance	218,543	7,804,194	-	(7,804,194)
Total other financing sources	<u>218,543</u>	<u>13,157,094</u>	<u>237,571</u>	<u>(12,919,523)</u>
Revenues and other sources over (under) expenses and other uses	<u>\$ -</u>	<u>\$ -</u>	(4,123,197)	<u>\$ (4,123,197)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:				
Reconciling items:				
Capital Outlay			6,382,641	
Contributed Capital-Cash-Local Governments			152,377	
Deferred outflows of resources for contributions made to pension plan in current fiscal year			273,680	
Pension expense			(266,655)	
Principal retirement			2,477,478	
Change in net assets			<u>\$ 4,896,324</u>	

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

COMPLIANCE SECTION

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

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

Certified Public Accountants



America Counts on CPAs

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 financial statements of South Granville Water and Sewer Authority as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprises South Granville Water and Sewer Authority's basic financial statements, and have issued our report thereon dated September 15, 2022.

Report on 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) 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 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 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 the 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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

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

Oxford, North Carolina
September 15, 2022

SOUTH GRANVILLE WATER AND SEWER AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

Section I - Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(s) Yes None reported

Noncompliance material to financial statements noted ? Yes No

Section II - Financial Statement Findings

None reported.

**SOUTH GRANVILLE WATER AND SEWER AUTHORITY
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2022**

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, 2022**

Prior Year Audit Findings:

Financial Statement Findings

None reported.

Federal Award Findings

None Reported