

**SOUTH GRANVILLE WATER  
AND SEWER AUTHORITY**

Butner, North Carolina

Financial Statement

Year Ended June 30, 2018

Board of Directors

Edgar Smoak, Chair  
Archer Wilkins, Vice-Chair  
Bill Birdsong  
Jimmy Gooch  
Tim Karan  
Kenneth McLamb  
Herman Wilkerson

Staff

Jerry L Ayscue, Interim Executive Director  
Richard Balmer, Finance Officer

**South Granville Water and Sewer Authority**  
**Financial Statement**  
**June 30, 2018**

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

Certified Public Accountants



America Counts on CPAs

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## 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, 2018, 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 statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

### ***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, 2018, and the changes in financial position and its 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 38 and 39, 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 as well as the accompanying schedule of expenditures of Federal and State awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit

Requirements for Federal Awards, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Revenues and Expenses-Budget and Actual, the Schedule of Revenues and Expenses-Budget and Actual-Capital Projects and the Schedule of Expenditures of Federal and State Awards 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 and Schedule of Expenditures of Federal and State Awards, 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 August 24, 2018 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

August 24, 2018

## **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, 2018. 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 \$41.3 million, which reflects a \$4 million increase over prior year.

Customer revenue of \$11.9 million and related expenses resulted in an operating income of \$5.1 million. Non-operating income and expenses combined with contributed capital created a net income (increase in net assets) of \$4 million.

Existing bond debt had a year-end balance of \$18.2 million. An additional \$1.1 million in reimbursements from NC DEQ to fund the final payout on a capital wastewater project was recorded for the fiscal year.

## **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.

	2018	2017	2016
<b>Operating Revenues</b>			
Water service	\$4,185,830	\$4,471,194	\$4,356,460
Waste Water service	6,807,765	7,234,896	6,315,576
Service Initiation & Other	949,294	567,601	570,590
<b>Total Operating Revenues</b>	<b>\$11,942,889</b>	<b>\$12,273,691</b>	<b>\$11,242,626</b>

### Non-Operating Revenues

	2018	2017	2016
<b>Non-Operating Revenues</b>			
Investment Income	\$214,897	\$67,671	\$24,954
Gain on Sale of Capital Asset	16,766	27,765	21,977
<b>Total non-operating revenues</b>	<b>\$231,663</b>	<b>\$95,436</b>	<b>\$46,931</b>

## Total Revenues

Total revenue of \$12,174,552 was approximately 1% below original projections for the year. Management attributes this to several factors. Water billing revenue was 7% lower than original projections and sewer billing revenue was 7% less than original projections. This is primarily attributed to a water conservation program implemented by the Authority's largest customer. Total non-billing revenue resulting from allocation fees, tap fees, and customer penalties was significantly higher than anticipated due to conservative budget practices and unpredictability of those revenue streams. Investment revenue increased about 700% compared to original projections due to increasing interest rates and investing in the NCCMT Term Portfolio.

## Expenses

### Operating Expenses

	<b>2018</b>	<b>2017</b>	<b>2016</b>
General and administrative	\$1,080,619	\$1,105,464	\$1,236,453
Water supply, treatment and distribution	1,157,469	1,333,888	982,139
Waste Water treatment and collections	1,375,137	1,407,600	1,297,157
Meter reading and Maintenance	758,081	851,710	622,054
Pump and lift stations	447,093	397,322	382,317
Depreciation	1,966,180	1,485,265	1,319,578
<b>Total operating expenses</b>	<b>\$6,784,579</b>	<b>\$6,581,249</b>	<b>\$5,839,698</b>

### Non-Operating Expenses

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Debt related expense-Town of Butner	\$ 500,000	\$ 500,000	\$ 500,000
Interest Expense	1,044,985	1,158,655	1,131,255
DOT Hwy 75 Waterline Relocation	-	184,725	-
<b>Total non-operating expenses</b>	<b>\$1,544,985</b>	<b>\$ 1,843,380</b>	<b>\$1,631,255</b>

Total expenses of \$8,329,564 were comparable to projections.

## Capital Asset & Debt Administration

Capital Assets – SGWASA’s capital assets as of June 30, 2018 totaled \$55,534,030 (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, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Current</u> <u>Portion</u>
<u>Bonds Payable</u>					
Suntrust	\$ 5,137,468	\$ -	\$ 492,974	\$4,644,494	\$ 503,627
USDA	4,651,000	-	70,000	4,581,000	72,000
USDA	5,991,000	-	82,000	5,909,000	84,000
BB&T	3,377,920	-	288,205	3,089,715	298,234
<u>Loans Payable</u>					
<u>DENR-DWSRF</u>					
(ARRA)	61,325	-	4,717	56,608	4,717
DENR (ISF)	701,166	-	43,823	657,343	43,823
DENR (ISF)	22,973,890	1,131,820	1,234,503	22,871,207	1,345,365
DENR (ISF)	547,514	-	42,116	505,398	42,117
Net pension liability	618,236	-	192,610	425,626	-
Accrued Vacation Leave	159,950	-	6,020	153,930	153,930
	<u>\$44,219,469</u>	<u>\$1,131,820</u>	<u>\$2,456,968</u>	<u>\$42,894,321</u>	<u>\$2,547,813</u>

The wastewater treatment plant project is complete. The current year increase of \$1.1 million for a cumulative (net of paid) \$23 million as shown reflects the final revised loan amortization.

**Bonds Payable** - At June 30, 2018, 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, 2018</u>	<u>Principal Outstanding June 30, 2018</u>
Redemption of State of NC Series 2001 Butner Water and Sewer System Revenue Bonds	2006	10/15/2026	\$ 9,200,000	\$4,555,506	\$ 4,644,494
USDA Bond (assumed from City of Creedmoor)	2012	6/1/2052	4,846,000	265,000	4,581,000
USDA Bond (to acquire City of Creedmoor system)	2015	6/1/2054	6,220,000	311,000	5,909,000
BB&T Bond (to acquire City of Creedmoor system)	2015	3/1/2027	<u>3,935,136</u>	<u>845,421</u>	<u>3,089,715</u>
			<u>\$24,201,136</u>	<u>\$5,976,927</u>	<u>\$18,224,209</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 10% or greater for the 2018-2019 fiscal year primarily due to the Authority's largest customer implementing a water conservation program. Use of fund balance is currently budgeted for the shortfall with further review and a possible rate increase if needed effective January 1, 2019. Rates remain unchanged for the fiscal year with no increase in either volume or base rates.

No cost of living adjustment was approved for the upcoming fiscal year. Capital outlay has been budgeted to renovate, replace, or upgrade existing equipment, infrastructure, and vehicles. Repairs are also included for the water plant facility with further changes and renovations expected which may require a budget amendment.

## **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, 2018**

**EXHIBIT 1**

<hr/> <hr/>	
Assets	
Current Assets	
Cash and cash equivalents	\$ 27,806,367
Receivables:	
Trade accounts	1,334,373
Receivable from other governments	66,764
Other receivables (vendor deposits and interest)	8,346
Inventory	284,738
Total Current Assets	<u>29,500,588</u>
Capital Assets	
Land and construction in progress	386,722
Depreciable (Net of accumulated depreciation)	55,147,308
Total Capital Assets	<u>55,534,030</u>
Total Assets	<u>85,034,618</u>
Deferred Outflows of Resources	
Contributions to pension plan in current fiscal year	313,756
Total Deferred Outflows of Resources	<u>313,756</u>
Total Assets and Deferred outflows of resources	<u><u>85,348,374</u></u>
Liabilities and Net Assets	
Current Liabilities	
Trade Payables	316,377
Customer deposits and advances	585,113
Accrued interest payable	149,222
Payroll liabilities	7,825
Current portion of long term liabilities	2,547,813
Total Current Liabilities	<u>3,606,350</u>
Non-Current Liabilities	
Net Pension Liability	425,626
Due in more than one year	39,920,882
Total Liabilities	<u>43,952,858</u>
Deferred Inflows of Resources	46,046
Net Position	
Net investment in capital assets	13,219,265
Unrestricted	28,130,205
Total Net Position	<u>41,349,470</u>
Total Liabilities, Deferred Inflows and Net Position	<u><u>\$ 85,348,374</u></u>

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, 2018**

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Operating Revenues	
Water	\$ 4,185,830
Wastewater	6,807,765
Other	949,294
Total Operating Revenues	11,942,889
Operating Expenses	
Administration	511,779
Billing/Collections	276,083
Water Supply, distribution, and treatment	1,157,469
Wastewater treatment and collection	1,375,137
Utilities:	
Meter reading	80,335
Maintenance: water line	243,628
Maintenance: sewer line	434,118
Pump stations, lift stations, water towers	447,093
Board/clerk and non-departmental expenses	183,795
Insurance	108,962
Depreciation	1,966,180
Total Operating Expenses	6,784,579
Operating Income	5,158,310
Non-operating revenues (expenses)	
Investment income	214,897
Gain (loss) on Sale of Fixed Assets	16,766
Debt related expense-Town of Butner	(500,000)
Interest expense	(1,044,985)
Total Non-operating Revenues (Expenses)	(1,313,322)
Income (Loss) Before Contributions and Change in Net Position	3,844,988
Contributed Capital - N C DOT	231,860
Total Contributions	231,860
Change in Net Position	4,076,848
Net position - July 1, 2017	37,272,622
Net Position - June 30, 2018	\$ 41,349,470

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, 2018**

Cash Flows From Operating Activities	
Receipts from customers	\$ 11,000,038
Payments for goods and services	(2,426,940)
Payments to employees and fringe benefits	(2,246,148)
Customer deposits	23,887
Other receipts	941,318
Net cash provided by operating activities	<u>7,292,155</u>
Cash Flows From Capital and Related Financing Activities	
Interest paid on bond maturities	(1,057,190)
Principal paid on long term debt	(2,258,338)
Debt related expense-Town of Butner	(500,000)
Proceeds from capital debt	1,131,820
Proceeds from Sale of Fixed Assets	16,766
Purchase of Capital Assets	(2,240,658)
Net cash provided by (used in) capital and related financing activities	<u>(4,907,600)</u>
Cash flows From Investing Activities	
Investment income	<u>214,897</u>
Net increase (decrease) in cash and cash equivalents	2,599,452
Cash and cash equivalents at beginning of year	<u>25,206,915</u>
Cash and cash equivalents at end of year	<u>\$ 27,806,367</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 5,158,310
Adjustments to reconcile operating income to net cash Provided (used) by operating activities:	
Depreciation	1,966,180
Changes in assets and liabilities:	
(Increase) Decrease in Receivables	6,443
(Increase) Decrease in Other receivables/prepays	(7,975)
(Increase) Decrease in Receivable from other Governments	(970)
(Increase) Decrease in Inventory	(22,784)
(Increase) Decrease in Deferred Outflows of resources for Pensions	199,751
Increase (Decrease) in Customer Deposits	23,887
Increase (Decrease) in Net Pension Liability	(192,610)
Increase (Decrease) in Deferred Inflows of resources for Pensions	(3,167)
Increase (Decrease) Accounts payable	165,365
Increase (Decrease) Other accrued liabilities	5,745
Increase (Decrease) in Compensated absences	(6,020)
Total adjustments	<u>2,133,845</u>
Net cash provided by operating activities	<u>\$ 7,292,155</u>

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, 2018**

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**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, 2018**

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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, 2018, the Authority had recorded a liability for accrued vacation and the salary-related payments of \$153,930.

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 \$6,573 interest only payment in November of 2018 and a \$50,396 principal and interest loan payment to NC DEQ in May of 2019 for the recent sewer line rehabilitation loan.

SGWASA has an obligation to pay a \$228,712 interest only payment in November of 2018 and a \$1,574,077 principal and interest loan payment

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to NC DEQ in May of 2019 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 2019 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 2019 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 2019 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 2018 and a principal and interest payment in March of 2019 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, 2018, the Authority's deposits had a carrying amount of \$10,984,239 and a bank balance of \$11,035,030. Of the bank balance, \$250,000 was covered by federal depository insurance and \$10,785,030 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, 2018.

At June 30, 2018, the Authority had \$10,693,020 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, 2018, the Authority had \$6,127,308 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, 2018 were as follows:

Trade accounts receivable		\$ 1,334,373
Accounts receivable sales tax refund	66,764	
Accounts receivable other	<u>8,346</u>	
		<u>75,110</u>
Total receivables		<u>\$ 1,409,483</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			Balance
	July 1, 2017	Increases	Decreases	June 30, 2018
Capital Assets, Non-depreciable				
Land	\$ 33,450	\$ -	\$ -	\$ 33,450
Construction in Progress (CIP)	77,066	972,933	696,727	353,272
<b>Total Capital Assets, Non-depreciable</b>	<u>110,516</u>	<u>972,933</u>	<u>696,727</u>	<u>386,722</u>
Capital Assets, Depreciable				
Buildings	33,098,435	1,131,820	-	34,230,255
Furniture & Fixtures /Improvements	18,903	-	-	18,903
Machinery & Equipment	1,047,633	71,055	51,977	1,066,711
Other Structures & Improvements	31,258,456	993,437	-	32,251,893
<b>Total Capital Assets, Depreciable</b>	<u>65,423,427</u>	<u>2,196,312</u>	<u>51,977</u>	<u>67,567,762</u>
Less Accumulated Depreciation / Amortization for:				
Buildings	4,518,997	778,370	-	5,297,367
Machinery & Equipment	734,199	74,065	51,977	756,287
Other Structure & Improvements	5,253,055	1,113,745	-	6,366,800
<b>Total Accumulated Depreciation</b>	<u>10,506,251</u>	<u>1,966,180</u>	<u>51,977</u>	<u>12,420,454</u>
<b>Total Capital Assets, Depreciable Net</b>	<u>54,917,176</u>			<u>55,147,308</u>
<b>Capital Assets, Net</b>	<u>\$ 55,027,692</u>			<u>\$ 55,534,030</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](http://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, 2018, was 7.5% 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 \$125,110 for the year ended June 30, 2018.

*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, 2018, SGWASA reported a liability of \$425,626 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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, 2017, SGWASA’s proportion was .0279%, which was a decrease of 0.0012% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, SGWASA recognized pension expense of \$129,085. At June 30, 2018, SGWASA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 24,519	\$ 12,044
Changes of assumptions	60,785	-
Net difference between projected and actual earnings on pension plan investments	103,342	-
Changes in proportion and differences between SGWASA contributions and proportionate share of contributions	-	34,002
SGWASA contributions subsequent to the measurement date	<u>125,110</u>	<u>-</u>
Total	<u>\$ 313,756</u>	<u>\$ 46,046</u>

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\$125,110 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, 2018. Other amounts reported as deferred inflows of resources related to pension will be recognized in pension expense as follows:

**Year ended June 30:**

2019	8,181
2020	114,573
2021	55,754
2022	(35,908)
2023	-
Thereafter	-

*Actuarial Assumptions.* The total pension liability in the December 31, 2016 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	7.2 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, 2016 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

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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, 2017 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 2016 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 7.2%. 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 7.2 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 (6.2 percent) or one percentage point higher (8.2 percent) than the current rate:

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	1% Decrease (6.2%)	Discount Rate (7.2%)	1% Increase (8.2%)
SGWASA's proportionate share of the net pension liability (asset)	\$1,277,732	\$425,626	(\$285,618)

*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, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30,</u> <u>2018</u>	<u>Current</u> <u>Portion</u>
<u>Bonds Payable</u>					
Suntrust	\$5,137,468	-	\$492,974	\$4,644,494	\$503,627
USDA	4,651,000	-	70,000	4,581,000	72,000
USDA	5,991,000	-	82,000	5,909,000	84,000
BB&T	3,377,920	-	288,205	3,089,715	298,234
<u>Loans Payable</u>					
DWSRF (ARRA)	61,325	-	4,717	56,608	4,717
DENR (IFS)	701,166	-	43,823	657,343	43,823
DENR (IFS)	22,973,890	1,131,820	1,234,503	22,871,207	1,345,365
DENR (IFS)	547,514	-	42,116	505,398	42,117
Net pension liability (LGERS)	618,236	-	192,610	425,626	-
Accrued Vacation Leave	<u>159,950</u>	<u>-</u>	<u>6,020</u>	<u>153,930</u>	<u>153,930</u>
Total Long-Term Liabilities	<u>\$44,219,469</u>	<u>\$1,131,820</u>	<u>\$2,456,968</u>	<u>\$42,894,321</u>	<u>\$2,547,813</u>

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**Note 9B. Bonds Payable**

At June 30, 2018, 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, 2018</u>	<u>Principal Outstanding June 30, 2018</u>
Suntrust Bond	2006	10/15/2026	\$ 9,200,000	\$ 4,555,506	\$ 4,644,494
USDA bond	2012	6/1/2052	4,846,000	265,000	4,581,000
USDA bond	2015	6/1/2054	6,220,000	311,000	5,909,000
BB&T bond	2015	3/1/2027	<u>3,935,136</u>	<u>845,421</u>	<u>3,089,715</u>
Total Revenue Bonds Payable			<u>\$24,201,136</u>	<u>\$ 5,976,927</u>	<u>\$18,224,209</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, 2018, the Authority was able to meet that requirement with a ratio of 4.67.

Operating Revenues		\$11,942,889
Total Operating Expenses	\$ 6,784,579	
Less: Depreciation	1,966,180	
Current Expenses		4,818,399
Current Revenues - Current Expenses		\$ 7,124,490
Next year's debt		1,527,005
Ratio		4.67

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

Fiscal Year	Bond Payable		
Ending June 30	Principal	Interest	Total
2019	\$ 957,861	\$ 569,144	\$ 1,527,005
2020	985,124	542,421	1,527,545
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
2024-2028	4,503,224	1,831,626	6,334,851
2029-2033	1,185,000	1,434,405	2,619,405
2034-2038	1,406,000	1,212,085	2,618,085
2039-2043	1,672,000	947,975	2,619,975
2044-2048	1,985,000	634,270	2,619,270
2049-2053	2,124,000	261,836	2,385,836
2054	282,000	9,871	291,870
Total Requirements	\$ 18,224,209	\$ 8,902,478	\$ 27,126,687

**South Granville Water and Sewer Authority**  
**Butner, North Carolina**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 9C. Loans Payable**

At June 30, 2018, 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>2018</u>	<u>Principal</u> <u>outstanding</u> <u>June 30,</u> <u>2018</u>
DWSRF (ARRA)	2011	5/2/2030	\$ 94,346	\$ 37,738	\$ 56,608
DENR (IFS)	2013	5/1/2033	876,458	219,115	657,343
DENR (IFS)	2016	5/1/2030	673,864	168,466	505,398
DENR (IFS)	2016	5/1/2035	<u>26,907,302</u>	<u>4,036,095</u>	<u>22,871,207</u>
Total Loans Payable			<u>\$ 28,551,970</u>	<u>\$4,461,414</u>	<u>\$ 24,090,556</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.

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

**South Granville Water and Sewer Authority**  
**Butner, North Carolina**  
**Notes to the Financial Statements**  
**June 30, 2018**

---

	<u>Loan</u> <u>Payable</u>		
Fiscal Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2019	\$ 1,436,022	\$ 470,571	\$ 1,906,593
2020	1,436,022	442,787	1,878,809
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
2024-2028	7,180,110	1,380,423	8,560,533
2029-2033	7,039,608	685,829	7,725,437
2034	<u>2,690,728</u>	<u>80,723</u>	<u>2,771,451</u>
Total Requirements	<u>\$ 24,090,556</u>	<u>\$ 4,221,993</u>	<u>\$ 28,312,549</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 \$23,887. Requiring a higher deposit (\$150 instead of \$50) beginning July 1<sup>st</sup>, 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, 2018 and August 24, 2018, 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 (ASSET)  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST FIVE FISCAL YEARS \***

**LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
SGWASA's proportion of the net pension liability (asset) (%)	0.0279%	0.0291%	0.0288%	-0.0291%	0.0300%
SGWASA's proportion of the net pension liability (asset) (\$)	425,624	618,236	129,387	(171,439)	366,437
SGWASA's covered-employee payroll	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	26.21%	39.21%	8.49%	-11.54%	24.65%
Plan fiduciary net position as a percentage of the total pension liability **	94.18%	91.47%	98.09%	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 FIVE FISCAL YEARS**

**LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 125,110	\$ 117,740	\$ 105,162	\$ 106,817	\$ 105,049
Contributions in relation to the contractually required contribution	<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>
SGWASA's covered-employee payroll	1,668,139	1,624,001	1,576,641	1,523,780	1,485,840
Contributions as a percentage of covered-employee payroll	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, 2018**

	Original	Final	Actual	Variance Favorable (Unfavorable)
Operating Revenues				
Water	\$ 4,500,000	\$ 4,050,000	\$ 4,185,830	\$ 135,830
Wastewater	7,300,000	6,650,000	6,807,765	157,765
Other	198,000	748,000	949,294	201,294
Total Operating Revenues	<u>11,998,000</u>	<u>11,448,000</u>	<u>11,942,889</u>	<u>494,889</u>
Operating Expenses				
Administration	494,300	616,049	531,236	84,813
Billing/Collections	296,100	300,550	285,814	14,736
Water Supply, distribution, and treatment	1,465,150	1,587,550	1,154,784	432,766
Wastewater treatment and collection	1,594,950	1,773,550	1,338,128	435,422
Meter reading	94,450	96,450	84,675	11,775
Maintenance: water line	496,050	501,050	260,609	240,441
Maintenance: sewer line	590,100	599,700	478,998	120,702
Pump stations, lift stations, water towers	467,300	457,800	317,770	140,030
Miscellaneous non-departmental expenses	2,185,385	2,180,985	2,122,652	58,333
Projects and studies	-	2,326,060	947,576	1,378,484
Repairs and maintenance-all departments	493,391	652,541	367,201	285,340
Total Expenditures	<u>8,177,176</u>	<u>11,092,285</u>	<u>7,889,443</u>	<u>3,202,842</u>
Debt Service				
Bond debt (principal/interest)	1,532,500	1,532,500	1,524,076	8,424
Loan debt (principal/interest)	2,042,835	1,785,835	1,779,246	6,589
Debt related expenses-Town of Butner	500,000	500,000	500,000	-
Total Debt Service	<u>4,075,335</u>	<u>3,818,335</u>	<u>3,803,322</u>	<u>15,013</u>
Non-Operating Revenues (Expenses)				
Investment Earnings	25,000	170,000	214,897	44,897
Gain (loss) on Sale of Fixed Assets	-	-	16,766	16,766
Total Non-operating Revenues (Expenses)	<u>25,000</u>	<u>170,000</u>	<u>231,663</u>	<u>61,663</u>
Excess of revenues over (under) expenses before other financing sources	(229,511)	(3,292,620)	481,787	3,774,407
Other Financing Sources (Uses)				
Appropriated Fund Balance	229,511	3,292,620	-	(3,292,620)
Total other financing sources	<u>229,511</u>	<u>3,292,620</u>	<u>-</u>	<u>(3,292,620)</u>
Revenues and other sources over (under) expenses and other uses	<u>\$ -</u>	<u>\$ -</u>	481,787	<u>\$ 481,787</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:				
Reconciling items:				
Capital Outlay			2,240,658	
Contributed Capital-Developer(s)			231,860	
Capital Projects - WWTP Exhibit 7			(1,131,820)	
Deferred outflows of resources for contributions made to pension plan in current fiscal year			125,110	
Pension expense			(129,085)	
Principal retirement			2,258,338	
Change in net assets			<u>\$ 4,076,848</u>	

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

SOUTH GRANVILLE WATER AND SEWER AUTHORITY  
 BUTNER, NORTH CAROLINA  
 CAPITAL PROJECTS FUND  
 SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE  
 - BUDGET AND ACTUAL (NON GAAP)  
 FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	PROJECT AUTHORIZATION	PRIOR YEAR	ACTUAL CURRENT YEAR	TOTAL TO DATE	VARIANCE POSITIVE (NEGATIVE)
Revenues					
Wastewater Plant Rehabilitation Project-Phase I					
Loan from DENR (IFS)	\$ 28,015,926	\$ 25,775,482	\$ 1,131,820	\$ 26,907,302	\$ (1,108,624)
Total Revenues	<u>28,015,926</u>	<u>25,775,482</u>	<u>1,131,820</u>	<u>26,907,302</u>	<u>(1,108,624)</u>
Expenses					
Wastewater Plant Rehabilitation Project-Phase I					
Construction	25,662,355	24,110,139	1,131,820	25,241,959	420,396
Contingency	387,315	-	-	-	387,315
Technical Services	1,966,256	1,708,414	-	1,708,414	257,842
Loan Closing Fee (2%)-NC DEQ	560,319	560,319	-	560,319	-
Total Expenses	<u>28,576,245</u>	<u>26,378,872</u>	<u>1,131,820</u>	<u>27,510,692</u>	<u>1,065,553</u>
Revenues over (under) expenses	(560,319)	(603,390)	-	(603,390)	(43,071)
Other Financing Sources					
Transfer from Operating Fund	560,319	-	-	-	(560,319)
Total Other Financing Sources	<u>560,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(560,319)</u>
Revenues and Other Sources Over (Under) Expenses	<u>\$ -</u>	<u>\$ (603,390)</u>	<u>\$ -</u>	<u>\$ (603,390)</u>	<u>\$ (603,390)</u>

## **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

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Curtis G. Van Horne, CPA

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## Report On Internal Control Over Financial Reporting And on Compliance and Other Matters Based On An Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

### Independent Auditor's Report

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 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, 2018 and the related notes to the financial statements, and have issued our report thereon dated August 24, 2018.

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

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### 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 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 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  
August 24, 2018

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

Certified Public Accountants



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**Report On Compliance For Each Major Federal Program;  
Report on Internal Control Over Compliance; With OMB Uniform Guidance and the State Single Audit  
Implementation Act**

**Independent Auditor's Report**

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

**Report on Compliance for Each Major Federal Program**

We have audited South Granville Water and Sewer Authority, compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of South Granville Water and Sewer Authority's major federal programs for the year ended June 30, 2018. South Granville Water and Sewer Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of South Granville Water and Sewer Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about South Granville Water and Sewer Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of South Granville Water and Sewer Authority's compliance.

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## **Opinion on Each Major Federal Program**

In our opinion, South Granville Water and Sewer Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## **Report on Internal Control Over Compliance**

Management of South Granville Water and Sewer Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered South Granville Water and Sewer Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Granville Water and Sewer Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

Winston, Williams, Creech, Evans & Company, LLP  
Oxford, North Carolina  
August 24, 2018



**SOUTH GRANVILLE WATER AND SEWER AUTHORITY  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2018**

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**Section II - Financial Statement Findings**

None reported

**Section III - Federal Award findings and Questioned Costs**

None reported

**SOUTH GRANVILLE WATER AND SEWER AUTHORITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**Prior Year Audit Findings:**

Financial Statement Findings

None reported.

Federal Award Findings

None Reported

**SOUTH GRANVILLE WATER AND SEWER AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Federal CFDA Number</u>	<u>Federal (Direct &amp; Pass-through) Expenditures</u>	<u>State Expenditures</u>
<b>Federal and State Awards:</b>			
<u>NC Department of Environmental Quality</u>			
Clean Water State Revolving Fund CS370925-02	66.458	\$ 1,063,911	\$ 67,909
Beginning balance of loan was \$21,711,848.			
Additional loan proceeds for the year were \$2,662,838.			
After principal payments of \$1,234,503 the ending balance is \$22,871,207.			
<b>Total Assistance</b>		<b>\$ 1,063,911</b>	<b>\$ 67,909</b>

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

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards(SEFSA) includes the federal and State grant activity of SGWASA under the programs of the federal government and the State of North Carolina for the year ended June 30, 2018. The information in this SEFSA is presented in accordance with the requirements of Title 2 U S Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of SGWASA, it is not intended to and does not present the financial position, changes in net assets or cash flows of SGWASA.

Note 2 - Summary of Significant Accounting Policies

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

Note 2 - Loans Outstanding

South Granville Water and Sewer Authority had the following loan balances outstanding at June 30, 2018 for loans that the grantor/pass-through grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of loans outstanding at June 30, 2018 consist of:

<u>Program Name</u>	<u>CFDA Number</u>	<u>State Project</u>	<u>Amount Outstanding</u>
Clean water Revolving Fund	66.458	CS370925-02	\$ 22,871,207