

**FLATROCK/BANNERTOWN
WATER AND SEWER DISTRICT**
(A Component Unit of Surry County, North Carolina)

Financial Statements

June 30, 2020



**GOULD KILLIAN
CPA GROUP, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS

**FLAT ROCK/BANNERTOWN WATER AND SEWER DISTRICT
(A Component Unit of Surry County, North Carolina)**

**BASIC FINANCIAL STATEMENTS
JUNE 30, 2020**

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Independent Auditors' Report

Board of Commissioners
Flat Rock/Bannertown Water and Sewer District
Dobson, North Carolina

We have audited the accompanying financial statements of the Flat Rock/Bannertown Water and Sewer District (a component unit of Surry County, North Carolina) (the “District”) which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Flat Rock/Bannertown Water and Sewer District as of June 30, 2020, and the changes in financial position and cash flows for the year then ended in accordance 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 Management's Discussion and Analysis on pages 3-7 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Flat Rock/Bannertown Water and Sewer District. The budgetary schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary schedule 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. 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, the budgetary schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
January 29, 2021

FLAT ROCK/BANNERTOWN WATER AND SEWER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Flat Rock/Bannertown Water and Sewer District, a component unit of Surry County, North Carolina, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2020. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the District's financial statements, which follow this narrative.

On January 7, 2002, the Surry County Board of Commissioners created the Flat Rock/Bannertown Water and Sewer District in accordance with Article 6, Chapter 162A of the North Carolina General Statutes. The Board determined that in order to provide water and sewer service to the residents within the District, the District must make certain capital improvements, including, without limitation, the acquisition, construction, and installation of a grinder pump station, a 500,000 gallon water tank and related improvements, and the installation of water and sewer lines in and to the District.

Two project phases have been planned for the District. As the District develops, other project phases may be planned and executed, subject to available funds.

Phase I Project. The Phase I Project can provide water services to approximately 632 customers and sewer services to approximately 37 customers.

Phase II Project. The Phase II Project is estimated to provide water services to approximately 485 customers. It will provide sewer services to approximately 685 customers.

On April 9, 2003, the US Department of Agriculture, Rural Development, gave formal notice to the County that Phase I of the project had been funded by a combination of a grant and a loan. The District received a federal grant of \$4,599,000 for Phase I of the project. The District also received a low interest loan for Phase I of the project in the amount of \$2,548,000 over a forty-year repayment period. This debt was approved October 7, 2003 by voters of the District and will be repaid from resources of the District.

Although Phase I of the project is complete, it was the intent of the District's governing body to search for federal or State funds to carry out Phase II and subsequent phases, in order to provide services to the entire District. Currently, there are no plans in the works for Phase II.

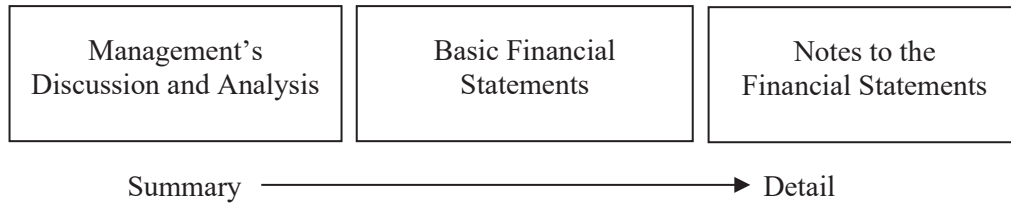
Financial Highlights

- As of the close of the current fiscal year, the Flat Rock/Bannertown Water and Sewer District reported net position of \$2,528,451. Net position is classified as net investment in capital assets, restricted and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute. Of the total net position, \$66,589 is classified as unrestricted.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two components: 1) basic financial statements and 2) notes to the financial statements (see Figure 1). In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the District.

Figure 1 – Required Components of Annual Financial Report



Basic Financial Statements

The Flat Rock/Bannertown Water and Sewer District's basic financial statements are comprised of Exhibits 1 through 3. The Flat Rock/Bannertown Water and Sewer District operates as a singular Enterprise Fund. All activities of the District are considered business-type activities. Business-type activities are those that the District charges customers to provide water and sewer services.

The next section of the basic financial statements is the **Notes**. The notes to the financial statements explain in detail some of the data contained in those statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements start after Exhibit 3 of this report.

After the notes, **Supplemental Information** is provided. Budgetary information required by the General Statutes can be found in this part of the statements.

**FLAT ROCK/BANNERTOWN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis

**DISTRICT'S NET POSITION
Table 1**

	<u>FY 2020</u>	<u>FY 2019</u>
Assets:		
Current and other assets	\$ 590,816	\$ 509,118
Capital assets, net of depreciation	<u>4,620,862</u>	<u>4,785,178</u>
Total assets	<u>5,211,678</u>	<u>5,294,296</u>
Liabilities:		
Current liabilities	524,227	460,322
Bonds payable	<u>2,159,000</u>	<u>2,202,000</u>
Total liabilities	<u>2,683,227</u>	<u>2,662,322</u>
Net position:		
Net investment in capital assets	2,461,862	2,583,178
Unrestricted	<u>66,589</u>	<u>48,796</u>
Total net position	<u>\$ 2,528,451</u>	<u>\$ 2,631,974</u>

Net position may serve, over time, as one useful indicator of the District's financial condition. The assets of the Flat Rock/Bannertown Water and Sewer District exceeded liabilities by \$2,528,451 (net position) as of June 30, 2020. One portion of net position reflects the District's investment in capital assets (e.g. water and sewer distribution infrastructure, and land); less any related debt still outstanding that was issued to acquire those items. The Flat Rock/Bannertown Water and Sewer District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**FLAT ROCK/BANNERTOWN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

DISTRICT'S CHANGES IN NET POSITION

Table 2

	<u>FY 2020</u>	<u>FY 2019</u>
Operating Revenues:		
Water and sewer charges, net	\$ 239,611	\$ 227,424
Total operating revenues	<u>239,611</u>	<u>227,424</u>
Operating Expenses:		
Water and sewer operations	119,911	115,636
Professional services	4,220	4,000
Depreciation	<u>164,316</u>	<u>164,317</u>
Total operating expenses	<u>288,447</u>	<u>283,953</u>
Operating loss	(48,836)	(56,529)
Non-Operating Revenues (Expenses):		
Surry County contribution	32,583	45,522
Investment earnings	6,171	7,857
Interest and fees	<u>(93,441)</u>	<u>(95,189)</u>
Total non-operating revenues (expenses)	<u>(54,687)</u>	<u>(41,810)</u>
Change in net position	(103,523)	(98,339)
Net position, beginning of year	<u>2,631,974</u>	<u>2,730,313</u>
Net position, end of year	<u>\$ 2,528,451</u>	<u>\$ 2,631,974</u>

Business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties. All activities of the District are considered business-type activities. The activities reported above were financed by water and sewer sales.

Business-type activities decreased the Flat Rock/Bannertown Water and Sewer District's net position by \$103,523. Key elements of the decrease are as follows:

- Debt payments
- Depreciation

**FLAT ROCK/BANNERTOWN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Capital Asset and Debt Administration

Capital assets. In Fiscal Year 2019-2020, the District reported \$4,620,862 for a plant and distribution system (net of accumulated depreciation).

DISTRICT'S CAPITAL ASSETS

**(Net of Depreciation)
Table 3**

	<u>FY 2020</u>	<u>FY 2019</u>
Land	\$ 20,000	\$ 20,000
Plant and distribution systems	6,572,659	6,572,659
Less accumulated depreciation	<u>(1,971,797)</u>	<u>(1,807,481)</u>
Total capital assets, net	<u>\$ 4,620,862</u>	<u>\$ 4,785,178</u>

Debt Administration. At June 30, 2020, the Flat Rock/Bannertown Water and Sewer District had \$2,159,000 in general obligation bond debt outstanding.

Additional information on the District's capital assets and long-term debt can be found in Notes 2A and 2B.

BUDGET HIGHLIGHTS FOR THE FISCAL YEAR ENDING JUNE 30, 2021

There are no significant changes budgeted in Fiscal Year 2019-2020. Revenues and expenses are budgeted at \$267,749.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the District's finances for those with an interest in this area. Questions concerning any of the information found in this report, or requests for additional information, should be directed to Finance Officer, County of Surry, PO Box 1467, 114 West Atkins St, Dobson, North Carolina 27017.

BASIC FINANCIAL STATEMENTS

FLAT ROCK/BANNERTOWN WATER AND SEWER DISTRICT
(A COMPONENT UNIT OF SURRY COUNTY, NORTH CAROLINA)

Exhibit 1

STATEMENT OF NET POSITION

June 30, 2020

Assets

Current Assets:

Cash and cash equivalents	\$ 549,447
Accounts receivable, net	32,712
Due from other governments	<u>8,657</u>
Total current assets	<u>590,816</u>

Non-current Assets:

Land	20,000
Depreciable assets, net	<u>4,600,862</u>
Total non-current assets	<u>4,620,862</u>

Total assets 5,211,678

Liabilities

Current Liabilities:

Accrued interest	7,288
Due to primary government	516,939
General obligation bonds payable - current	<u>45,000</u>
Total current liabilities	<u>569,227</u>

Long-term liabilities:

General obligation bonds payable - non-current	<u>2,114,000</u>
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Total liabilities 2,683,227

Net Position

Net investment in capital assets	2,461,862
Unrestricted	<u>66,589</u>

Total net position \$ 2,528,451

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

FLAT ROCK/BANNERTOWN WATER AND SEWER DISTRICT
(A COMPONENT UNIT OF SURRY COUNTY, NORTH CAROLINA)

Exhibit 2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended June 30, 2020

Operating Revenues:	
Water service, net	\$ 222,600
Sewer service, net	17,011
Total operating revenues	<u>239,611</u>
Operating Expenses:	
Operating	119,911
Professional services	4,220
Depreciation	164,316
Total operating expenses	<u>288,447</u>
Operating loss	<u>(48,836)</u>
Non-operating Revenues (Expenses):	
Surry County contribution	32,583
Investment earnings	6,171
Interest and fees	(93,441)
Total non-operating revenues (expenses)	<u>(54,687)</u>
Change in net position	(103,523)
Net position, beginning of year	<u>2,631,974</u>
Net position, end of year	<u>\$ 2,528,451</u>

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

FLAT ROCK/BANNERTOWN WATER AND SEWER DISTRICT
(A COMPONENT UNIT OF SURRY COUNTY, NORTH CAROLINA)

Exhibit 3

STATEMENT OF CASH FLOWS
For the year ended June 30, 2020

Cash Flows from Operating Activities:

Cash received from customers	\$ 236,000
Cash paid for goods and services	<u>(124,131)</u>
Net cash provided by operating activities	<u>111,869</u>

Cash Flows from Non-capital Financing Activities:

Contribution received from Surry County	32,583
Net advances from (to) primary government	<u>108,397</u>
Net cash provided by non-capital financing activities	<u>140,980</u>

Cash Flows from Capital and Related Financing Activities:

Principal paid on general obligation bonds	(43,000)
Interest paid on general obligation bonds	<u>(93,586)</u>
Net cash used by capital and related financing activities	<u>(136,586)</u>

Cash Flows from Investing Activities:

Interest on investments	<u>6,171</u>
Net cash provided by investing activities	<u>6,171</u>

Net increase in cash and cash equivalents	122,434
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Cash and cash equivalents, beginning of year	<u>427,013</u>
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Cash and cash equivalents, end of year	<u>\$ 549,447</u>
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Reconciliation of Operating Loss to Net Cash

Provided by Operating Activities:

Operating loss	\$ (48,836)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	164,316
Changes in operating assets and liabilities:	
Increase in accounts receivable	(4,875)
Decrease in due from other governments	<u>1,264</u>
Net cash provided by operating activities	<u>\$ 111,869</u>

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

FLAT ROCK/BANNERTOWN WATER AND SEWER DISTRICT
(A Component Unit of Surry County, North Carolina)

NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Flat Rock/Bannertown Water and Sewer District (the "Water and Sewer District") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Water and Sewer District is a component unit of Surry County, North Carolina. The Board of Commissioners of Surry County also serves as the Board of Commissioners of the Water and Sewer District. As required by generally accepted accounting principles, these financial statements are also blended with the County's financial statements because of the significance of their operational and financial relationship to the County.

B. Basis of Presentation

Business-type activities are financed in whole or in part by fees charged to external parties. All activities of the Water and Sewer District are considered business-type activities.

The accounts of the District are organized and operated on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

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

The Water and Sewer District has one fund category – Proprietary Fund.

Proprietary funds include the following fund type:

Enterprise Fund

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

C. Measurement Focus and Basis of Accounting

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

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Water and Sewer District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

D. Use of Estimates

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

E. Budget

The Water and Sewer District's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for the annually budgeted fund and at the object level for the multi-year fund. The County Manager is authorized to adjust approved budget appropriations within the same fund and such action is reported to the Board at a subsequent meeting. 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.

F. Assets, Liabilities, and Fund Equity**1. Deposits and Investments**

All deposits of the Water and Sewer District are made in board-designated official depositories and are secured as required by State law G.S. 159-31. The Water and Sewer District may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Water and Sewer District may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Water and Sewer District to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The Water and Sewer District's investments are carried at fair value.

2. Cash and Cash Equivalents

The Water and Sewer District's cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Accounts Receivable (Including Allowance for Doubtful Accounts)

The receivable balance at June 30, 2020 is \$32,712. The receivables are carried at original billing amount less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Revenue from charges for services are reported net of write offs. The allowance for doubtful accounts is \$4,438 at June 30, 2020.

4. Due from Other Governments

The due from other governments balance at June 30, 2020 is \$8,657. The balance consists of amounts owed from the City of Mount Airy for unremitted water and sewer payments.

5. Capital Assets

Capital assets are recorded at original cost at the time of acquisition. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated life of the District's assets are 40 years.

6. Long-Term Obligations

In the proprietary fund types of the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

7. Net Position

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

Note 2 – Detail Notes on All Funds**A. Assets****1. Deposits and Investments**

All of the Water and Sewer District's deposits are either insured or collateralized 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 Water and Sewer District'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 Water and Sewer District, these deposits are considered to be held by the Water and Sewer District's agents in their name. The amount of the pledged collateral is based on an approved averaging method for noninterest-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 Water and Sewer District or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Water and Sewer District under the Pooling Method, the potential exists for undercollateralization, 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 Water and Sewer District has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Water and Sewer District complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2020, the Water and Sewer District had \$549,447 invested with the North Carolina Capital Management Trust Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Water and Sewer District has no policy regarding credit risk.

2. Capital Assets

Capital assets of the Water and Sewer District at June 30, 2020 are as follows:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital assets being depreciated:				
Plant and distribution systems	6,572,659	-	-	6,572,659
Less accumulated depreciation for:				
Plant and distribution systems	(1,807,481)	(164,316)	-	(1,971,797)
Capital assets being depreciated, net	<u>4,765,178</u>			<u>4,600,862</u>
Total capital assets, net	<u>\$ 4,785,178</u>			<u>\$ 4,620,862</u>

B. Liabilities

1. Bonds Payable

All general obligation bonds serviced by the Flat Rock/Bannertown Water and Sewer District of Surry County are collateralized by the full faith, credit and taxing power of Surry County. Principal and interest payments are appropriated when due.

The Water and Sewer District's bonds payable at June 30, 2020 is comprised of the following:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balances</u>	<u>Current Portion</u>
\$2,548,000 Water and Sewer General Obligation Bonds, Series 2007	<u>\$ 2,202,000</u>	<u>\$ -</u>	<u>\$ 43,000</u>	<u>\$ 2,159,000</u>	<u>\$ 45,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year	Principal	Interest	Total
Ending			
2021	45,000	91,758	136,758
2022	47,000	89,845	136,845
2023	49,000	87,848	136,848
2024	51,000	85,765	136,765
2025-2029	289,000	394,485	683,485
2030-2034	355,000	327,675	682,675
2035-2039	437,000	245,565	682,565
2040-2044	538,000	144,373	682,373
2045-2048	348,000	29,580	377,580
Total	<u>\$ 2,159,000</u>	<u>\$ 1,496,894</u>	<u>\$ 3,655,894</u>

2. Risk Management

The Water and Sewer District is included, where applicable, in the insurance coverage of Surry County, North Carolina. The County 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 County carries commercial coverage for general liability, property and casualty, errors and omissions, and umbrella insurance. Through this coverage, the County obtains property coverage equal to replacement cost values of owned property with the exception of contractor’s equipment, which is insured for actual cash value, and vehicles that are insured for actual cash value or the cost of repair. Commercial automobile liability has a limit of \$1,000,000 per accident. The County’s general liability coverage has a limit of \$1,000,000 for each occurrence and a \$2,000,000 aggregate limit. The County’s errors and omissions coverage has a limit of \$1,000,000 per occurrence with an aggregate limit of \$2,000,000. In addition to the coverage above, the County has umbrella coverage with per occurrence and aggregate limits of \$8,000,000.

In accordance with G.S. 159-29, the County’s Finance Officer is individually bonded for \$250,000. The remaining employees that have access to funds are insured with a commercial carrier.

3. Interfund Balances and Activities

Balances due to primary government at June 30, 2020, consist of the following:

Payable To:	Amount	Purpose
Primary Government	<u>\$ 516,939</u>	Short-term cash advances

Note 3 – Agreement with the City of Mount Airy

1. Service Fee

As long as the District has remaining project debt obligations, the service fee to be paid to the City of Mount Airy (the “City”) for operating the system shall be equal to the billed monthly charges for the District, less the amount representing the outside-city surcharge. The City shall remit the actual collections from the District, net of service fee, to the District on a monthly basis for the District’s use in meeting its debt service obligations.

In consideration of service fees received, the City shall provide billing, collection, and operational services and shall maintain and keep in good repair the water and sewer facilities without cost to the District. The service fee charged by the City is calculated at 50% of the customer billing amount. The service fees paid in FY 2020 was \$118,561 and is included in the District’s operating expenditures of \$119,911.

Note 4 – Uncertainties from the COVID-19 Pandemic

The COVID-19 pandemic in the United States, including Surry County, North Carolina, where the Authority is located, has caused severe business disruptions as state and local governments have declared states of emergency and issued stay-at-home orders for all but the most essential activities. As a result, economic uncertainties have arisen which are likely to negatively impact the Authority in various ways.

A loss of revenue could take place. Utility collections are particularly vulnerable to economic uncertainties. Other financial impacts could occur, though such potential impact is unknown at this time. The overall financial impact and duration of the COVID-19 pandemic cannot be reasonably estimated at this time.

SUPPLEMENTAL FINANCIAL DATA

**FLAT ROCK/BANNERTOWN WATER AND SEWER DISTRICT
(A COMPONENT UNIT OF SURRY COUNTY, NORTH CAROLINA)**

**SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the year ended June 30, 2020**

	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Operating Revenues:			
Water service, net	\$ 214,295	\$ 222,600	\$ 8,305
Sewer service, net	<u>20,698</u>	<u>17,011</u>	<u>(3,687)</u>
Total operating revenues	<u>234,993</u>	<u>239,611</u>	<u>4,618</u>
Non-operating Revenues:			
Surry County contribution	32,583	32,583	-
Investment earnings	<u>-</u>	<u>6,171</u>	<u>6,171</u>
Total non-operating revenues	<u>32,583</u>	<u>38,754</u>	<u>6,171</u>
 Total revenues	 <u>267,576</u>	 <u>278,365</u>	 <u>10,789</u>
Expenditures:			
Operating	124,989	119,911	5,078
Professional services	6,000	4,220	1,780
Debt Service:			
Principal retirement	43,000	43,000	-
Interest and fees	<u>93,587</u>	<u>93,587</u>	<u>-</u>
Total expenditures	<u>267,576</u>	<u>260,718</u>	<u>6,858</u>
 Net change in fund balance	 <u>\$ -</u>	 17,647	 <u>\$ 17,647</u>
Reconciliation from budgetary basis (modified accrual) to full accrual basis:			
Depreciation		(164,316)	
Principal payments on bond anticipation notes		43,000	
Change in accrued interest		<u>146</u>	
 Change in net position		 <u>\$ (103,523)</u>	