

**STOKES COUNTY**  
**WATER AND SEWER AUTHORITY**  
(A COMPONENT UNIT OF STOKES COUNTY)  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2021**

**STOKES COUNTY WATER AND SEWER AUTHORITY**

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**PRINCIPAL OFFICERS**

Chairman .....John Hawkins

Board Member ..... Adam Stewart

Board Member ..... W. Scott Snow

Board Member .....Joseph DelGuercio

**STOKES COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF STOKES COUNTY)**  
**FOR THE YEAR ENDED JUNE 30, 2021**

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

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

## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
Stokes County Water and Sewer Authority  
Danbury, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Stokes County Water and Sewer Authority (the "Authority"), a component unit of Stokes County, as of and for the year ended June 30, 2021, 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. 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 respective financial position of the business-type activities of the Stokes County Water and Sewer Authority, as of June 30, 2021, and the respective changes in financial position and, cash flows thereof 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 the Management's Discussion and Analysis 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 an opinion on the financial statements that collectively comprise the Authority's basic financial statements. 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.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
Hickory, NC  
October 27, 2021

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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As management of the Stokes County Water and Sewer Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2021. We encourage 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.

### Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the fiscal year by \$1,293,015 (net position).
- Total net position increased by \$27,265.
- At the end of the current fiscal year, unrestricted net position was \$328,576.

### Overview of the Financial Statements

The Authority's purpose is to eventually provide water and sewer service throughout the County. Currently, the Authority is only providing water service to selected areas in the southeastern part of the County.

The Authority does not provide other general government types of services or programs and all of its activities are considered business-type activities. As such, the Authority is considered to be and, therefore, presents its financial report as a stand-alone Enterprise Fund.

As a stand-alone Enterprise Fund, the Authority's basic financial statements consist of a *Statement of Net Position*, a *Statement of Revenues, Expenses, and Changes in Net Position*, and a *Statement of Cash Flows*. These statements, together with the *Management's Discussion and Analysis*, provide both short-term and long-term financial information and implications for the Authority's financial position. To further illuminate the information contained in these statements, *Notes to Financial Statements* and a *Statement of Revenues, Expenditures, and Supplemental Budget Expenditures - Budget and Actual* appear immediately following the basic financial statements.

The *Statement of Net Position*, similar to a balance sheet, presents the Authority's basic financial position through disclosure of information about the Authority's assets and liabilities. Net position represents the difference between total assets and total liabilities.

The *Statement of Revenues, Expenses, and Changes in Net Position*, similar to private sector statements, provide information regarding the Authority'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*.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Statement of Cash Flows* deals specifically with the flow of cash and cash equivalents arising from operating, financing, and investing activities. Because the Authority'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 principles generally accepted in the United States of America, a reconciliation of cash and cash equivalents is also presented in this statement.

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

### Condensed Statement of Net Position

Figure 1

	Business-Type Activities	
	2021	2020
<b>Assets:</b>		
Current and other assets	\$ 341,436	\$ 282,864
Capital assets	964,439	996,040
Total	<u>1,305,875</u>	<u>1,278,904</u>
<b>Liabilities</b>	<u>12,860</u>	<u>13,154</u>
<b>Net Position:</b>		
Net investment in capital assets	964,439	996,040
Unrestricted	328,576	269,710
Total net position	<u>\$ 1,293,015</u>	<u>\$ 1,265,750</u>

As noted earlier, comparing changes in net position, over time, provides one useful indicator of a government's financial condition. Note the amount of \$1,293,015 for 2021, as reflected in the total net position line item in the Business-Type Activities column in Figure 1 (Condensed Statement of Net Position).

- The Authority is looking at ways to expand the water supply to the Stokes/Rockingham County line for economic growth and other water needs in the County.
- With the financial/economic conditions that the state, county, and nation have been facing, and will continue facing, the appropriations of funds are limited.
- The Authority with the County is looking for funding to provide water to the Meadows Community.
- The Authority is looking for funding sources to expand water supply in the County.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Condensed Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2021 and 2020

Figure 2

	Business-Type Activities	
	2021	2020
<b>Revenues:</b>		
Program revenue:		
Charges for services	\$ 181,215	\$ 194,378
Tap fees	-	5,885
Miscellaneous revenue	2,500	26,600
General revenues:		
Investment earnings	295	644
Total revenues	<u>184,010</u>	<u>227,507</u>
<b>Expenses:</b>		
Administration	61,383	91,422
Water purchases	63,761	64,257
Depreciation	31,601	31,602
Total expenses	<u>156,745</u>	<u>187,281</u>
Change in net position	27,265	40,226
<b>Net Position:</b>		
Beginning of year - July 1	<u>1,265,750</u>	<u>1,225,524</u>
Ending of year - June 30	<u>\$ 1,293,015</u>	<u>\$ 1,265,750</u>

Figure 2 (Condensed Statement of Revenues, Expenses, and Changes in Net Position) reflects an increase in net position of \$27,265 for business-type activities.

#### Financial Analysis of the Authority's Funds

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.



## Capital Assets and Debt Administration

**Capital Assets.** The Authority's net investment in capital assets for its business-type activities as of June 30, 2021 totals \$964,439 (net of accumulated depreciation). These assets include land, equipment, and water lines. There were no purchases in the current year.

### Capital Assets

**Figure 3**

	<b>Business-Type Activities</b>	
	<b>2021</b>	<b>2020</b>
<b>Assets:</b>		
Land	\$ 59,979	\$ 59,979
Total non-depreciable assets	<u>59,979</u>	<u>59,979</u>
Equipment	23,728	23,728
Water lines	<u>1,517,807</u>	<u>1,517,807</u>
Total depreciable assets	1,541,535	1,541,535
Less accumulated depreciation	<u>637,075</u>	<u>605,474</u>
Total depreciable assets, net	<u>904,460</u>	<u>936,061</u>
Total	<u>\$ 964,439</u>	<u>\$ 996,040</u>

Additional information on the Authority's capital assets can be found in Note 2 of the Financial Statements.

## Economic Factors

Stokes County's population per 07/2019 NC certified population is 46,657.

The Per Capita Income figure for Stokes County was \$36,835, and the Median Household Income was \$52,356.

The rate of unemployment in Stokes County for 2021 2<sup>nd</sup> quarter was 4%.

The majority of Stokes County jobs are in the Services Sector followed by the Trade, Transportation and Utilities Sector, and Construction.

The 2021 Total Retail Sales (with food/drink) is \$2,685,752.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Major new investments in Stokes County for 2020-21 include:

- Buy local campaign for Stokes County.
- Walnut Cove EMS station has been completed.
- Grants for Meadows water project.

The Stokes County Economic Development Commission embarked on a new plan of work. This plan encompasses four distinct strategies that are inter-linked and, if successfully accomplished, should greatly enhance the lives of many of our residents. The four priorities are: Business Retention, Expansion, Tourism Development, New Business Recruitment, and Entrepreneurial Development. These were broken down into long and short-term priorities, and specific plans have been established to assist with the process. Many of these goals are inter-related and require having access to high-speed internet to be effective. These goals will be evaluated annually and adjusted as necessary to ensure that the efforts are having the desired results.

### **Budget Highlights for the Fiscal Year Ending June 30, 2022.**

**Business-Type Activities.** Operations for the water system are stable. The system has no major maintenance issues. The Town of Walnut Cove is purchasing water from the Authority to help their water issues. The water rates increased due to the City of Winston-Salem rate increase for water purchased.

### **Requests for Information**

This report is designed to provide an overview of the 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 Julia E. Edwards, Finance Director, Stokes County, Post Office Box 20, Danbury, North Carolina 27016, (336) 593-2405, or [jedwards@co.stokes.nc.us](mailto:jedwards@co.stokes.nc.us).

## ***BASIC FINANCIAL STATEMENTS***

**STOKES COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF STOKES COUNTY)**

**STATEMENT OF NET POSITION**  
**JUNE 30, 2021**

**Assets:**

## Current Assets:

Cash and cash equivalents	\$ 332,512
Accounts receivable, net-customer	<u>1,710</u>

Total current assets	<u>334,222</u>
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## Non-Current Assets:

Restricted cash and cash equivalents	<u>7,214</u>
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## Capital Assets:

Land	59,979
Other capital assets, net of accumulated depreciation	<u>904,460</u>
Total capital assets	<u>964,439</u>

Total non-current assets	<u>971,653</u>
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Total assets	<u>1,305,875</u>
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**Liabilities:**

## Current Liabilities:

Accounts payable	2,500
Accrued salaries	<u>3,146</u>

Total current liabilities	<u>5,646</u>
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## Non-Current Liabilities:

## Liabilities to be paid from restricted assets:

Customer deposits	<u>7,214</u>
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Total non-current liabilities	<u>7,214</u>
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Total liabilities	<u>12,860</u>
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**Net Position:**

Net investment in capital assets	964,439
Unrestricted	<u>328,576</u>

Total net position	<u>\$ 1,293,015</u>
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*The accompanying notes are an integral part of this statement.*

**STOKES COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF STOKES COUNTY)**

**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET POSITION**  
**YEAR ENDED JUNE 30, 2021**

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**Operating Revenues:**

Charges for services	\$ 181,215
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**Operating Expenses:**

Administration	61,383
Water purchases	63,761
Depreciation	<u>31,601</u>

Total operating expenses	<u>156,745</u>
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Operating income	<u>24,470</u>
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**Non-Operating Revenues:**

Investment earnings	295
Grant	<u>2,500</u>

Total non-operating revenues	<u>2,795</u>
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Change in net position	27,265
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**Net Position:**

Beginning of year - July 1	<u>1,265,750</u>
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End of year - June 30	<u><u>\$ 1,293,015</u></u>
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*The accompanying notes are an integral part of this statement.*

**STOKES COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF STOKES COUNTY)**

**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2021**

**Cash Flows from Operating Activities:**

Cash received from customers	\$ 185,636
Cash paid for goods and services	<u>(125,663)</u>
Net cash provided (used) by operating activities	<u>59,973</u>

**Cash Flows from Non-Capital Financing Activities:**

Grant	<u>2,500</u>
Net cash provided by non-capital financing activities	<u>2,500</u>

**Cash Flows from Investing Activities:**

Interest on investments	<u>295</u>
Net increase in cash and cash equivalents	62,768

**Cash and Cash Equivalents:**

Beginning of year - July 1	<u>276,958</u>
End of year - June 30	<u>\$ 339,726</u>

**Reconciliation of Operating Loss to Net Cash Used by Operating Activities:**

Operating income	<u>\$ 24,470</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	31,601
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	4,196
Increase (decrease) in accrued salaries	1,823
Increase (decrease) in accounts payable	(2,342)
Increase (decrease) in customer deposits	<u>225</u>
Total adjustments	<u>35,503</u>
Net cash provided by operating activities	<u>\$ 59,973</u>

*The accompanying notes are an integral part of this statement.*

**STOKES COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF STOKES COUNTY)**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2021**

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**1. Summary of Significant Accounting Policies**

The accounting policies of the Stokes County Water and Sewer Authority (the “Authority”) 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 Authority is a public authority established under North Carolina General Statute 162A to construct and operate a water system for the County’s residents. The five-member governing body is appointed entirely by Stokes County’s Board of Commissioners. As required by generally accepted accounting principles, these financial statements are discretely presented in the County’s financial statements because of the significance of their operational and financial relationship to the County.

**B. Basis of Presentation**

*Government-wide Statements:* The statement of net position and the statement of activities display information about the primary (the “Authority”). These statements include the financial activities of the overall government. Business-type activities are financed in whole or in part by fees charged to external parties. All activities of the Authority are considered business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Authority. Direct expenses are those that are specifically associate with a program or function and, therefore, are clearly identifiable to a specific function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a specific program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements.* The fund financial statements provide information about the Authority’s funds. Separate statements for each fund category – proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

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 result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings and investment earnings.

The Authority has one fund category – Proprietary Funds.

**STOKES COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF STOKES COUNTY)**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2021**

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**1. Summary of Significant Accounting Policies (Continued)**

**Proprietary Funds**

**Enterprise Funds**

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 Stokes County Water and Sewer Authority operates as a singular Enterprise Fund.

The Enterprise Fund is considered a major fund for the year ended June 30, 2021.

**C. Measurement Focus and Basis of Accounting**

In accordance with North Carolina General Statutes, the Authority's Proprietary Fund is maintained during the year using the modified accrual basis of accounting.

*Proprietary Fund Financial Statements.* The Proprietary Fund financial statements are reported using the economic resources measurement focus. The Proprietary Fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transaction in with the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes

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



**STOKES COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF STOKES COUNTY)**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2021**

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**1. Summary of Significant Accounting Policies (Continued)**

**D. Budgetary Data**

The Authority's budget is 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.

The budget is prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the department level for all annually budgeted funds and at the project level for multi-year funds. During the year, a number of 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.

**E. Assets, Liabilities, and Fund Equity**

**1. Deposits and Investments**

All deposits of the Authority are made in board-designated official depositories and are secured as required by state law [G.S. 159-31]. 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 deposit. All deposits of the Authority are held by Stokes County, which has established deposit accounts as defined above.

State law [G.S. 159-30(c)] authorizes the Authority to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies, certain high-quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The Authority's investments are generally reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. Because the NCCMT Government has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

**2. Cash and Cash Equivalents**

The Authority pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents.

**STOKES COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF STOKES COUNTY)**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2021**

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**1. Summary of Significant Accounting Policies (Continued)**

E. Assets, Liabilities, and Fund Equity (continued)

3. Restricted Assets

Customer deposits held by the Authority before any services are supplied are restricted to the service for which the deposit was collected. At June 30, 2021, restricted cash for deposits totals \$7,214.

4. Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. The allowance was \$23,069 at June 30, 2021.

5. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Purchased or constructed capital assets are recorded at historical cost at the time of acquisition. Capital assets donated to the Authority are recorded at the estimated fair market value at the date of donation. The Authority's minimum capitalization threshold is \$5,000. 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. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvement subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized. Depreciation of capital assets is provided on the straight-line method over the following estimated useful lives:

Equipment	10 years
Water lines	50 years

6. Net Position

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

**STOKES COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF STOKES COUNTY)**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2021**

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**1. Summary of Significant Accounting Policies (Continued)**

F. Accounting 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 amount of assets and 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 period. Actual results could differ from these estimates.

**2. Detail Notes On All Funds**

A. Assets

1. Deposits

All of the Authority's deposits are either insured or collateralized by using the Pooling Method. 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 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 or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Authority under the Pooling Method, the potential exists for under-collateralization. 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 formal policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Authority analyzes the financial soundness of any other financial institutions used by the Authority. The Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2021, the Authority's deposits had a carrying amount of \$336,907 and a bank balance of \$339,725. Of the bank balance, \$339,725 was covered by collateral held under the Pooling Method.

**STOKES COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF STOKES COUNTY)**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2021**

**2. Detail Notes On All Funds (continued)**

**A. Assets (continued)**

**2. Investments**

At June 30, 2021, the Authority had investments in the North Carolina Capital Management Trust Cash Portfolio of \$2,819, which carried a credit rating of AAAm by Standard & Poor's and AAA-mf by Moody's Investor Service. The Authority has no policy on credit risk.

**3. Capital Assets**

Capital assets activity of the Authority for the year ended June 30, 2021 was as follows:

Non-depreciable capital assets:

Land	\$ 59,979	\$ -	\$ -	\$ 59,979
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Total non-depreciable capital assets	<u>59,979</u>	<u>-</u>	<u>-</u>	<u>59,979</u>
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Depreciable assets:

Equipment	23,728	-	-	23,728
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Water lines	<u>1,517,807</u>	<u>-</u>	<u>-</u>	<u>1,517,807</u>
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Total depreciable capital assets	<u>1,541,535</u>	<u>-</u>	<u>-</u>	<u>1,541,535</u>
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Less accumulated depreciation:

Equipment	16,906	1,245	-	18,151
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Water lines	<u>588,568</u>	<u>30,356</u>	<u>-</u>	<u>618,924</u>
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Total accumulated depreciation	<u>605,474</u>	<u>\$ 31,601</u>	<u>\$ -</u>	<u>637,075</u>
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Total depreciable capital assets	<u>936,061</u>			<u>904,460</u>
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Business-type activities

capital assets, net	<u>\$ 996,040</u>			<u>\$ 964,439</u>
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**STOKES COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF STOKES COUNTY)**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2021**

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**2. Detail Notes On All Funds (Continued)**

A. Assets (continued)

4. Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2021 is composed of the following:

	<b>Business-Type Activities</b>
Capital assets, net of accumulated depreciation	\$ 964,439
Net investment in capital assets	\$ 964,439

**3. Risk Management**

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; and errors and omissions; injuries to employees; and natural disasters. The Authority is covered under the County's commercial insurance policy as a rider of the policy. Settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years. Stokes County pays for this insurance.

The Authority does not maintain flood insurance.

In accordance with G.S. 159-29, the Authority's employees that have access to \$100 or more at any time of the Authority's funds are performance bonded through a commercial surety bond. The Finance Director is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

**4. Summary Disclosures of Significant Contingencies**

Coronavirus Disease (COVID-19)

During the fiscal year 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic has had significant effects on global markets, supply chains, businesses, and communities. Specific to the Authority, COVID-19 is expected to impact various parts of its fiscal year 2021-22 operations and financial results. Management believes the Authority is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as events associated with the pandemic continue to develop.

## ***SUPPLEMENTARY INFORMATION***

**STOKES COUNTY WATER AND SEWER AUTHORITY**  
**(A COMPONENT UNIT OF STOKES COUNTY)**

**STATEMENT OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**YEAR ENDED JUNE 30, 2021**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
<b>Revenues:</b>			
Operating Revenues:			
Charges for services	\$ 146,807	\$ 181,215	\$ 34,408
Non-Operating Revenues:			
Grant	-	2,500	2,500
Investment earnings	-	295	295
Total revenues	<u>146,807</u>	<u>184,010</u>	<u>37,203</u>
<b>Expenditures:</b>			
Administration and water purchases			
Salaries and wages	33,130	32,992	138
Employee benefits	11,922	11,985	(63)
Operating expenditures	83,755	73,349	10,406
Repairs and maintenance	15,000	5,008	9,992
Supplies	3,000	1,810	1,190
Total expenditures	<u>146,807</u>	<u>125,144</u>	<u>21,663</u>
Excess of revenues over (under) expenditures	<u>\$ -</u>	58,866	<u>\$ 58,866</u>
<b>Reconciliation from Budgetary Basis</b>			
<b>(Modified Accrual) to Full Accrual:</b>			
Reconciling items:			
Depreciation		<u>(31,601)</u>	
Change in net position		<u>\$ 27,265</u>	