

**HANDY SANITARY DISTRICT**

Financial Statements and  
Supplementary Information

For the Year Ended June 30, 2021

**HANDY SANITARY DISTRICT**

Denton, North Carolina

**BOARD OF DIRECTORS**

Charlie Hobson, Chairperson of the Board

Richard Smith, Secretary

Norman Hunt

Pauline Weaver

Dan Sexton

**Darrell Hinnant, General Manager**

**Lisa Hedrick, Finance and Office Manager**

**HANDY SANITARY DISTRICT**  
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## Independent Auditors' Report

To the Board of Directors  
Handy Sanitary District  
Denton, North Carolina

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Handy Sanitary District (the District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District'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.

### Auditors' 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 auditors' 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 District as of June 30, 2021, and the respective changes in financial position, and, where applicable, 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 on pages 3 through 10, 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 District's basic financial statements. The accompanying schedules of revenues and expenditures -budget and actual (Non-GAAP) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules 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, the information is 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 November 24, 2021, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*RH CPAe, PLLC*

Lexington, North Carolina  
November 24, 2021

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**HANDY SANITARY DISTRICT  
Management's Discussion And Analysis  
June 30, 2021**

This discussion and analysis is provided as an overview of the Handy Sanitary District's (the District) financial activities for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with the additional information we have furnished in the District's financial statements, which follows this narrative.

**Financial Highlights**

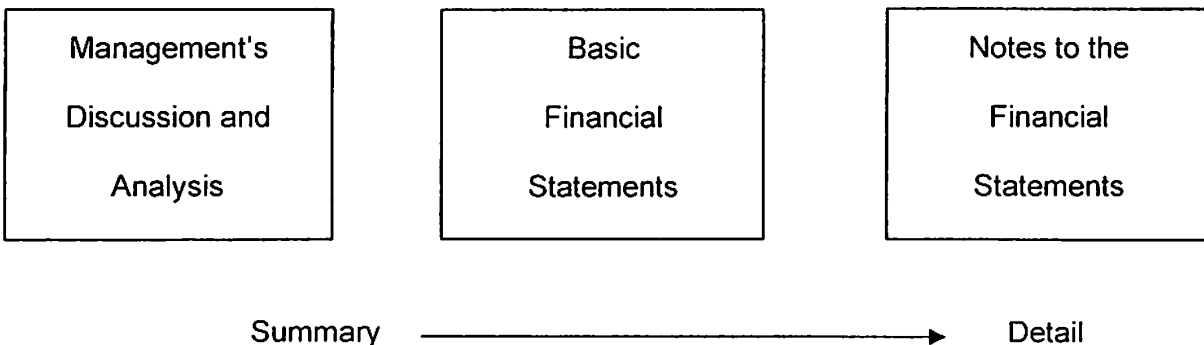
- The assets of the Handy Sanitary District exceeded its liabilities at the close of the fiscal year by \$12,440,100 (net position).
- The District's total net position increased by \$771,198.
- As of the close of the current fiscal year, the District's proprietary funds reported an ending net position of \$12,440,100. Approximately 0.48% of this total amount, or \$60,000 is restricted for water plant maintenance.
- The District's debt obligations decreased by \$901,572 (7.58%) during the 2021 fiscal year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two components: 1) fund financial statements and 2) notes to the financial statements. Because the District is a special-purpose government engaged in business-type activities only, the financial statements are presented in accordance with paragraph 138 of GASB Statement 34. 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 Reports**



**HANDY SANITARY DISTRICT**  
**Management's Discussion And Analysis**  
**June 30, 2021**

**Basic Financial Statements**

The first three documents (Exhibits A, B, and C) are the basic financial statements. They provide both short and long-term information concerning the District's financial status. The next section is the notes that provide a narrative and data explanation regarding selected financial statement presentations. The next two documents (Schedules 1-2) are supplementary information that focuses on individual funds: one enterprise fund, the Water and Sewer Fund and one project fund, the Badin Lake Sewer Capital Project.

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the District's financial status as a whole.

The government-wide statements report the District's net position and how it has changed. Net position is the difference between the District's total assets and total liabilities. Measuring net position is one way to gauge the District's financial condition.

The government-wide statements are business-type activities. The business-type activities are those that the District charges customers to provide raw water service. These include the water services offered by the Handy Sanitary District.

The government-wide financial statements are Exhibits A, B and C of this report.

**Fund Financial Statements**

Fund financial statements provide a more detailed look at the District's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the District's budget ordinance.

**Proprietary Funds.** Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for its water and sewer activity. This fund is the same as the functions shown in the business-type activities in the statement of net position and the statement of activities.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following Exhibit C of this report.



**HANDY SANITARY DISTRICT**  
**Management's Discussion And Analysis**  
**June 30, 2021**

**Government-Wide Financial Analysis**

As noted earlier, total net position over time may serve as a useful indicator of a government's financial condition. The assets of the District exceeded liabilities by \$12,440,100 as of June 30, 2021. The District's net position increased by \$771,198 for the fiscal year ended June 30, 2021. One of the largest portions of net position reflects the District's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

**Figure 2**  
**Financial Analysis**  
**District's Net Position**  
**June 30, 2021 and 2020**

|  | Business-Type Activities |               |
|--|--------------------------|---------------|
|  | 2021                     | 2020          |
| <b>Assets:</b>                         |                          |               |
| Current assets                         | \$ 4,063,093             | \$ 3,607,644  |
| Restricted assets                      | 292,092                  | 303,871       |
| Capital assets                         | 19,498,980               | 20,089,835    |
| Total assets                           | 23,854,165               | 24,001,350    |
| <b>Liabilities:</b>                    |                          |               |
| Current liabilities                    | 1,298,736                | 1,334,675     |
| Non-current liabilities                | 10,115,329               | 10,997,773    |
| Total liabilities                      | 11,414,065               | 12,332,448    |
| <b>Net Position:</b>                   |                          |               |
| Net investment in capital assets       | 8,501,207                | 8,209,879     |
| Restricted for water plant maintenance | 60,000                   | 60,000        |
| Unrestricted                           | 3,878,893                | 3,399,023     |
| Total net position                     | \$ 12,440,100            | \$ 11,668,902 |

**HANDY SANITARY DISTRICT**  
**Management's Discussion And Analysis**  
**June 30, 2021**

**Figure 3**  
**District's Change in Net Position**  
**For the Years Ended June 30, 2021 and 2020**

|                                      | Business-Type Activities |                      |
|--------------------------------------|--------------------------|----------------------|
|                                      | 2021                     | 2020                 |
| <b>Operating Revenues:</b>           |                          |                      |
| Water                                | \$ 1,685,817             | \$ 1,592,620         |
| Sewer                                | 1,667,822                | 1,626,688            |
| Other                                | 427,400                  | 170,443              |
| Total revenues                       | <u>3,781,039</u>         | <u>3,389,751</u>     |
| <br><b>Operating Expenses:</b>       |                          |                      |
| Water purchases                      | 583,052                  | 480,597              |
| Water distribution                   | 515,534                  | 554,433              |
| Sewer system                         | 1,412,587                | 1,164,530            |
| Administration                       | 469,955                  | 466,412              |
| Total expenses                       | <u>2,981,128</u>         | <u>2,665,972</u>     |
| <br>Operating income                 | 799,911                  | 723,779              |
| <br>Non-operating expenses           | (2,531)                  | (6,558)              |
| Net capital contributions (expenses) | <u>(26,182)</u>          | <u>71,279</u>        |
| <br>Change in net position           | 771,198                  | 788,500              |
| <br><b>Net Position:</b>             |                          |                      |
| Beginning of year - July 1           | <u>11,668,902</u>        | <u>10,880,402</u>    |
| End of year - June 30                | <u>\$ 12,440,100</u>     | <u>\$ 11,668,902</u> |

**Business-Type Activities.** Business-type activities increased the District's net position by \$771,198.

**HANDY SANITARY DISTRICT  
Management's Discussion And Analysis  
June 30, 2021**

**Capital Asset and Debt Administration**

**Capital Assets.** The District's investment in capital assets as of June 30, 2021, totals \$19,498,980. These assets include water and sewer equipment, infrastructure and land.

**Figure 4  
District's Capital Assets  
June 30, 2021 and 2020**

|                                  | Business-Type Activities |                      |
|----------------------------------|--------------------------|----------------------|
|                                  | 2021                     | 2020                 |
| Land                             | \$ 55,720                | \$ 55,720            |
| Land rights                      | 3,124                    | 3,124                |
| Buildings                        | 35,386                   | 38,383               |
| Water system                     | 2,016,853                | 2,112,114            |
| Badin Lake Sewer Capital Project | 17,253,148               | 17,737,650           |
| Automotive equipment             | 60,746                   | 85,142               |
| Machinery and equipment          | 66,723                   | 48,524               |
| Office furniture and equipment   | 7,280                    | 9,178                |
| <b>Total</b>                     | <b>\$ 19,498,980</b>     | <b>\$ 20,089,835</b> |

The District's Board has approved the following projects for capital expenditures, which have been started and costs incurred at June 30, 2021 were:

| Project          | Estimated<br>Cost | Costs<br>Incurred | Estimated Funding Sources |               |              | Operating<br>Fund |
|------------------|-------------------|-------------------|---------------------------|---------------|--------------|-------------------|
|                  |                   |                   | Grant(s)                  | Loan          | Other        |                   |
| Badin Lake Sewer | \$ 20,954,328     | \$ 20,835,840     | \$ 3,000,000              | \$ 13,988,328 | \$ 3,966,000 | \$ -              |

Additional information on capital assets can be found in the notes to the basic financial statements on pages 19 and 20.

**HANDY SANITARY DISTRICT**  
**Management's Discussion And Analysis**  
**June 30, 2021**

**Long-Term Debt.** As of June 30, 2021, the District had debt outstanding of \$10,997,773. The changes in long-term debt for the year ended June 30, 2021 were as follows:

|               | <u>June 30, 2020</u> | <u>Increases</u> | <u>Decreases</u> | <u>June 30, 2021</u> | <u>Current</u> |
|---------------|----------------------|------------------|------------------|----------------------|----------------|
| Notes payable | \$ 11,899,345        | \$ -             | \$ 901,572       | \$ 10,997,773        | \$ 882,444     |

Additional information regarding the District's long-term debt can be found in Notes 1 and 8 of the audited financial report.

**Growth Trend and Economic Factors**

Handy Sanitary District is expected to continue a steady moderate pace of growth as illustrated by the following population projection, as well as the District's water demand projections.

**Figure 6**  
**Service Population and Water Demand Projection**

|                                  | <u>2018</u> | <u>2020</u> | <u>2025</u> |
|----------------------------------|-------------|-------------|-------------|
| Total population of service area | 7,500       | 8,093       | 8,902       |
| % of growth                      | <1%         | 2%          | 2%          |
| # of water connections           | 3,200       | 3,520       | 3,872       |
| Consumption MGD                  | 0.85        | 1.013       | 1.114       |

The Handy Sanitary District has viable recreation areas with natural beauty and resources that are highly desirable for residential and recreational development. Uwharrie Point and the Old North State golf community are a testament to the growth potential that can be realized in the region. Pinehaven and the multiple developments along Lakeshore Drive of the Badin Lake area have existing development potential that has not been built-out to its full capacity. The best selling point for the District is its location. It is located approximately 35 miles from the metropolitan areas of Winston-Salem and Greensboro, with Charlotte only 50 miles southwest. Thomasville and Lexington are less than a 20-minute commute from Denton, providing access to major highways such as US-64 and Interstate-85. Although southern Davidson County has a rural nature and remote surroundings, it is served well with transportation corridors, including NC-109, NC-8, NC-47, and NC-49. The District's proximity to these highways and metropolitan areas enables workers to commute from areas served to large population centers with plentiful employment.

**HANDY SANITARY DISTRICT**  
**Management's Discussion And Analysis**  
**June 30, 2021**

**Financial Position**

The Handy Sanitary District has cash available for operations of \$3,513,748. The increase in income from operations and its effect on net position is being reviewed in subsequent financial planning by the District's Board and management. The following primary items are continuing to be implemented as well as expanded:

- Leaks are being aggressively repaired when discovered.
- Water line replacement in certain areas to reduce water loss is being expanded.
- Upcoming loan and interest payments.
- A regionalization study, funded by NCDENR, was performed to determine if the water/sewer systems of Town of Denton and Handy Sanitary District could/should be merged to provide more efficient delivery of services while containing cost increases. A more complete description of the work is provided in the Notes to the Financial Statements, page 23, Note 12.

**Budget Highlights for the Fiscal Year Ending June 30, 2021**

The water and sewer fund budget for the fiscal year ending June 30, 2021 was \$3,621,562. This was an increase of \$185,293 compared to the prior year budget. Management continues to strive to responsibly spend the revenue generated from customers.

**Badin Lake Sewer Project**

To date, 803 properties at Badin Lake have connected to the sewage system, plus there are 312 properties in Uwharrie Point and 983 properties in Badin Shores Resort for a total of 2098 properties served by the sewer system. Additional properties have paid sewer tap fees and have had grinder tank, tap and service lines installed on the properties. Each of those properties have been served with written notices requiring their connection to the sewer system. A flat sewer fee was commenced on these properties who have paid tap fees but who have not connected to sewer. About half of those who are being charged the flat sewer fee are paying each month. The others are not paying and management has an intensive program of persuasion and legal efforts to get them connected. We are able to get approximately 50 new connections each fiscal year. New connections are management's highest priorities.

**HANDY SANITARY DISTRICT  
Management's Discussion And Analysis  
June 30, 2021**

**Requests for Information**

This report is intended to provide a summary of the financial condition of the District. Questions or requests for additional information should be addressed to:

Board of Management  
Handy Sanitary District  
PO Box 987  
Denton, NC 27239

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## **BASIC FINANCIAL STATEMENTS**

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**HANDY SANITARY DISTRICT**  
**Statement of Net Position**  
**June 30, 2021**

**ASSETS**

## Current assets:

|                                       |                  |
|---------------------------------------|------------------|
| Cash and cash equivalents             | \$ 3,513,748     |
| Accounts receivable, net              | 515,616          |
| Due from other governments            | 33,729           |
| Cash and cash equivalents, restricted | 292,092          |
| Total current assets                  | <u>4,355,185</u> |

## Capital assets:

|   |                   |
|---|-------------------|
| Land and right-of-ways                              | 58,844            |
| Depreciable assets, net of accumulated depreciation | 19,440,136        |
| Total capital assets                                | <u>19,498,980</u> |
| Total assets  | <u>23,854,165</u> |

**LIABILITIES**

## Current liabilities:

|   |                  |
|---|------------------|
| Accounts payable                            | 78,654           |
| Accrued salaries and wages                  | 20,537           |
| Accrued interest                            | 5,258            |
| Sewer fees due to the Town of Denton        | 4,285            |
| Unearned revenue                            | 36,831           |
| Current compensated absences payable        | 38,635           |
| Current maturities of long-term debt        | 882,444          |
| Liabilities payable from restricted assets: |                  |
| Customer deposits                           | 232,092          |
| Total current liabilities                   | <u>1,298,736</u> |

## Non-current liabilities:

|                   |                   |
|-------------------|-------------------|
| Long term debt    | <u>10,115,329</u> |
| Total liabilities | <u>11,414,065</u> |

**NET POSITION**

|  |                      |
|--|----------------------|
| Net investment in capital assets       | 8,501,207            |
| Restricted for water plant maintenance | 60,000               |
| Unrestricted                           | 3,878,893            |
| Total net position                     | <u>\$ 12,440,100</u> |

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



**HANDY SANITARY DISTRICT**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2021**

**OPERATING REVENUES:**

|                                 |                  |
|---------------------------------|------------------|
| Water charges                   | \$ 1,685,817     |
| Sewer charges                   | 1,667,822        |
| Sewer pump sales                | 114,088          |
| Miscellaneous operating revenue | 313,312          |
| Total operating revenues        | <u>3,781,039</u> |

**OPERATING EXPENSES:**

|                                 |                  |
|---------------------------------|------------------|
| Water purchases                 | 583,052          |
| Water distribution:             |                  |
| Operations                      | 381,211          |
| Depreciation                    | 134,323          |
| Sewer system:                   |                  |
| Operations                      | 908,345          |
| Depreciation                    | 504,242          |
| Water and sewer administration: |                  |
| Operations                      | 466,959          |
| Depreciation                    | 2,996            |
| Total operating expenses        | <u>2,981,128</u> |

|                  |                |
|------------------|----------------|
| Operating income | <u>799,911</u> |
|------------------|----------------|

**NON-OPERATING REVENUES (EXPENSES):**

|   |                |
|---|----------------|
| Interest income                         | 6,268          |
| Interest expense                        | (15,499)       |
| Gain on sale of asset                   | 6,700          |
| Total non-operating revenues (expenses) | <u>(2,531)</u> |

|  |         |
|--|---------|
| Income before capital contributions and capital project expenses | 797,380 |
|--|---------|

|                          |                 |
|--------------------------|-----------------|
| Capital contributions    | 27,634          |
| Capital project expenses | <u>(53,816)</u> |

|                        |         |
|------------------------|---------|
| Change in net position | 771,198 |
|------------------------|---------|

**NET POSITION:**

|                   |                      |
|-------------------|----------------------|
| Beginning of year | <u>11,668,902</u>    |
| End of year       | <u>\$ 12,440,100</u> |

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

**HANDY SANITARY DISTRICT**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2021**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

|   |                  |
|---|------------------|
| Cash received from customers                | \$ 3,740,966     |
| Cash paid for goods and services            | (1,557,881)      |
| Cash paid to or on behalf of employees      | (763,465)        |
| Net cash provided from operating activities | <u>1,419,620</u> |

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

|   |                  |
|---|------------------|
| Acquisition and construction of capital assets                              | (50,706)         |
| Change in sales tax due from other governments related to capital purchases | 22,629           |
| Principal payments on long-term debt  | (901,572)        |
| Interest paid   | (17,389)         |
| Proceeds from sale of asset   | 6,700            |
| Capital contributions   | 27,634           |
| Capital project expenses  | (53,816)         |
| Net cash used by capital and related financing activities                   | <u>(966,520)</u> |

**CASH FLOWS FROM INVESTING ACTIVITIES:**

|  |                     |
|--|---------------------|
| Interest income received                     | <u>6,268</u>        |
| Net increase in cash and cash equivalents    | 459,368             |
| Cash and cash equivalents, beginning of year | <u>3,346,472</u>    |
| Cash and cash equivalents, end of year       | <u>\$ 3,805,840</u> |

**RECONCILIATION TO CASH AND CASH EQUIVALENTS REPORTED IN THE STATEMENT OF NET POSITION:**

|   |                     |
|---|---------------------|
| Cash and cash equivalents               | \$ 3,513,748        |
| Cash and cash equivalents, unrestricted | 292,092             |
| Total cash and cash equivalents         | <u>\$ 3,805,840</u> |

**RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:**

|   |                     |
|---|---------------------|
| Operating income  | \$ 799,911          |
| Adjustments to reconcile operating income to net cash from operating activities |                     |
| Depreciation  | 641,561             |
| Recognition of earned sewer tap fees for Badin Lake Sewer Project               | (40,752)            |
| Bad debt  | 7,296               |
| Change in assets and liabilities:   |                     |
| Increase in accounts receivable, net  | (14,227)            |
| Increase in accounts payable  | 15,417              |
| Increase in accrued salaries and wages  | 3,061               |
| Increase in sewer fees due to the Town of Denton                                | 1,178               |
| Decrease in compensated absences  | (1,435)             |
| Increase in customer deposits   | 7,610               |
| Net cash from operating activities  | <u>\$ 1,419,620</u> |

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

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## **NOTES TO THE FINANCIAL STATEMENTS**

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**HANDY SANITARY DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Handy Sanitary District (the 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 District is a sanitary unit operating under North Carolina Public Health Law, NC-GS 130-123 through 156, which presently provides (a) water services to rural customers in southern Davidson County and limited areas in Montgomery and Randolph Counties and (b) sewer services to a limited area in Davidson County and Montgomery County.

The District, governed by an elected five-member Board, is a separate governmental unit granted independent authority by the North Carolina General Statutes to allow the District's Board of Directors to set rates, fees, and charges without oversight, supervision, or direction from any other state or local entity or agency.

Because the District was formed as a public authority, an independent subdivision, which no municipality nor county exercises control, the District's financial data is not included as a component unit of any other reporting entity.

**B. Basis of Presentation**

The 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.

*Fund Financial Statements* - The fund financial statements provide information about the District's 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 capital contributions and investment earnings, result from non-exchange transactions or ancillary activities. The District has one fund category - proprietary funds.

***Proprietary Funds***

*Water and Sewer Fund* - Enterprise funds are 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 District operates as a singular Enterprise Fund which includes the Badin Lake Sewer Capital Project.

**HANDY SANITARY DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

In accordance with North Carolina General Statutes, the District'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 accounted for 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 District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, donations, and similar items. Revenue from grants and donations is 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 District's enterprise funds are charges to customers for sales and services. The District 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 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. Budgetary Data**

The District's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the Water and Sewer Fund. All annual appropriations lapse at fiscal year-end. Appropriations under project ordinances for enterprise construction project sub funds lapse at the completion of the project. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and the project level for the multi-year funds. All amendments must be approved by the governing board and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

**E. Assets, Liabilities, and Net Position**

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

**HANDY SANITARY DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Assets, Liabilities, and Net Position (Continued)**

State law [G.S. 159-30(c)] authorizes the 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).

*Cash and Cash Equivalents* - The District considers all highly liquid investments with maturity of three months or less when purchased to be cash and cash equivalents.

*Restricted Assets* - The District has a separate account which is designated for the Badin Lake Sewer Capital Project. The District's water contract with the Town of Denton requires the District to maintain the restricted cash as a reserve for system maintenance. Customer deposits held by the District before any services were supplied are restricted to the service for which the deposits were collected.

|                                 |            |
|---------------------------------|------------|
| Restricted cash:                |            |
| Business-Type Activities:       |            |
| Customer deposits               | \$ 232,092 |
| Town of Denton required reserve | 60,000     |
| Total restricted cash           | \$ 292,092 |

*Allowance for Doubtful Accounts* - An allowance for doubtful accounts is maintained for all accounts that are over 90 days old.

*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.

*Capital Assets* - The District's fixed assets are recorded at original cost at the time of acquisition. Donated assets are listed at the market value at the date of donation. The District has elected to capitalize those interest costs that are incurred during the construction period of general fixed assets when appropriate. The District's capitalization threshold is \$5,000. Assets are depreciated on a straight-line basis over estimated useful lives, which are as follows:

| Asset Class                    | Estimated Useful Lives |
|--------------------------------|------------------------|
| Land improvements              | 20 Years               |
| Buildings                      | 40 Years               |
| Water and sewer systems        | 40 Years               |
| Automotive equipment           | 5 Years                |
| Machinery and equipment        | 5 Years                |
| Office furniture and equipment | 5 Years                |

**HANDY SANITARY DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Assets, Liabilities, and Net Position (Continued)**

*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 expenditures during the period. Actual results could differ from these estimates.

*Long-Term Obligations* - Long-term obligations are reported as liabilities in the statement of net position. Water and sewer revenues meet the debt service requirements for water and sewer debt. The District has no legal debt margin under North Carolina General Statutes.

*Compensated Absences* - The vacation policy of the District provides for the accumulation of up to thirty days earned vacation leave, with such leave being fully vested when earned. A provision for unused vacation pay has been recorded. For the District's proprietary funds, an expense and a liability for compensated leave and the salary-related payments are recorded as the leave is earned. The District has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability. The District's sick leave policy grants 12 days per year to full-time employees, which can accumulate without limit, but do not vest. As such, accumulated and non-vested sick leave is not provided for in these financial statements.

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

**NOTE 2 – DEPOSITS**

All the deposits of the District are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the 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 District, these deposits are considered to be held by the District's agents in the entity'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 District or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the District under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The 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.

**HANDY SANITARY DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2021**

**NOTE 2 – DEPOSITS (Continued)**

The District 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 District's deposits had a carrying value of \$3,805,840 and a bank balance of \$3,938,933. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance of \$3,688,933 was covered by collateral held under the Pooling Method.

**NOTE 3 – RECEIVABLES**

Receivables consisted of the following for the year ended June 30, 2021:

|                                 | Customers         | Due From<br>Other<br>Governmmnets | Total             |
|---------------------------------|-------------------|-----------------------------------|-------------------|
| Accounts receivables            | \$ 601,816        | \$ 33,729                         | \$ 635,545        |
| Allowance for doubtful accounts | (86,200)          | -                                 | (86,200)          |
| Accounts receivables, net       | <u>\$ 515,616</u> | <u>\$ 33,729</u>                  | <u>\$ 549,345</u> |

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**HANDY SANITARY DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2021**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the District for the year ended June 30, 2021 was as follows:

|  | <u>June 30, 2020</u> | <u>Increases</u>  | <u>Decreases</u> | <u>Transfers</u> | <u>June 30, 2021</u> |
|--|----------------------|-------------------|------------------|------------------|----------------------|
| Non-depreciable capital assets:          |                      |                   |                  |                  |                      |
| Land and right-of-ways                   | \$ 58,844            | \$ -              | \$ -             | \$ -             | \$ 58,844            |
| Capital projects in progress             | -                    | -                 | -                | -                | -                    |
| Total non-depreciable capital assets     | <u>58,844</u>        | <u>-</u>          | <u>-</u>         | <u>-</u>         | <u>58,844</u>        |
| Depreciable capital assets:              |                      |                   |                  |                  |                      |
| Land improvements                        | 23,875               | -                 | -                | -                | 23,875               |
| Building                                 | 120,901              | -                 | -                | -                | 120,901              |
| Water system                             | 6,290,178            | 19,322            | -                | -                | 6,309,500            |
| Badin Lake Sewer Capital Project         | 20,314,506           | -                 | -                | -                | 20,314,506           |
| Automotive equipment                     | 259,958              | -                 | 36,896           | -                | 223,062              |
| Machinery and equipment                  | 412,814              | 31,384            | -                | -                | 444,198              |
| Office furniture and equipment           | 81,420               | -                 | -                | -                | 81,420               |
| Total depreciable capital assets         | <u>27,503,652</u>    | <u>50,706</u>     | <u>36,896</u>    | <u>-</u>         | <u>27,517,462</u>    |
| Less accumulated depreciation:           |                      |                   |                  |                  |                      |
| Land improvements                        | 23,875               | -                 | -                | -                | 23,875               |
| Building                                 | 82,518               | 2,997             | -                | -                | 85,515               |
| Water system                             | 4,178,064            | 114,583           | -                | -                | 4,292,647            |
| Badin Lake Sewer Capital Project         | 2,576,856            | 484,502           | -                | -                | 3,061,358            |
| Automotive equipment                     | 174,816              | 24,396            | 36,896           | -                | 162,316              |
| Machinery and equipment                  | 364,290              | 13,185            | -                | -                | 377,475              |
| Office furniture and equipment           | 72,242               | 1,898             | -                | -                | 74,140               |
| Total accumulated depreciation           | <u>7,472,661</u>     | <u>\$ 641,561</u> | <u>\$ 36,896</u> | <u>\$ -</u>      | <u>8,077,326</u>     |
| Total depreciable capital assets, net    | <u>20,030,991</u>    |                   |                  |                  | <u>19,440,136</u>    |
| Water and sewer fund capital assets, net | <u>\$20,089,835</u>  |                   |                  |                  | <u>\$19,498,980</u>  |

Depreciation expense was charged to functions/programs as follows:

|                                |                   |
|--------------------------------|-------------------|
| Water distribution             | \$ 134,323        |
| Sewer system                   | 504,242           |
| Water and sewer administration | 2,996             |
| Total depreciation expense     | <u>\$ 641,561</u> |

**HANDY SANITARY DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2021**

**NOTE 4 – CAPITAL ASSETS (Continued)**

The District has the following active construction project at June 30, 2021. The project includes the Badin Lake Sewer Capital Project that includes the construction of a sewer collection system. Most of the expenditures related to the Project were capitalized; however, there were some costs, which were incurred during the project which were expensed in previous years.

|                                  | Estimated<br>Costs | Costs<br>Incurred | Costs<br>Remaining |
|----------------------------------|--------------------|-------------------|--------------------|
| Badin Lake Sewer Capital Project | \$20,954,328       | \$20,835,840      | \$ 118,488         |

**NOTE 5 – SUPPLEMENTAL RETIREMENT PLAN**

The District provides pension benefits for its employees through a defined contribution plan that is administered through Plan Administrators, Inc. (PAI). The plan is available to all full-time employees with one year of eligibility service and 21 years of age. Employees who work at least 40 hours a week are considered full-time. The District contributes up to 3% of employee compensation as well as matches 50% of the employee’s voluntary deferral up to 6%. During the fiscal year ending June 30, 2021 the District’s contributions totaled \$24,381 and employee contributions totaled \$21,688. The financial statements for the plan are available by contacting PAI at 1-800-236-7400 or by writing to PO Box 60, De Pere, Wisconsin 54115.

**NOTE 6 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District has general liability coverage of \$3 million in the aggregate and auto liability coverage of \$1 million per occurrence, property coverage of \$750,000 blanket coverage extension, and workers' compensation coverage up to statutory limits. The property liability has a 125% of applicable building or personal property limits shown in supplemental declaration in any one occurrence. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

There have been no significant reductions in insurance coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

The District does carry flood insurance of \$100,000 blanket coverage. The District’s administrative facility and field equipment is located in a moderate to low risk flood zone (less than a 1% chance of flooding each year).

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

**HANDY SANITARY DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2021**

**NOTE 7 – CONTINGENT LIABILITIES**

At June 30, 2021, the District was a plaintiff to various lawsuits with individual customers who owe water or sewer fees, or who have not connected their water and sewer facilities to the District's lines as required by local ordinance. In the opinion of the District's management, the ultimate effect of these legal matters will not have a material adverse effect on the District's financial position.

**NOTE 8 – LONG-TERM OBLIGATIONS**

The District has no authority to issue general obligation debt under its enabling legislation. The District is able to issue revenue bonds in such amounts as may be financially feasible without statutory limits.

Notes Payable

Note payable originally issued for \$700,000 on January 29, 1996 payable to Rural Economic and Community Development, refinanced with BB&T Governmental Finance on August 1, 2015. The principal is due in semi-annual installments, plus interest at 2.91% through August 12, 2027. \$ 293,071

Note payables that were issued for bond refinancing, water line extensions and water lines were refinanced on August 12, 2015 for \$933,173. The refinanced note is payable to BB&T Government Finance in semi-annual installments of \$72,888, including interest of 2.43% through August 12, 2022. 213,456

Note payable originally issued for \$525,040 on November 29, 2005 for the North Main water tank. The note was refinanced on August 12, 2015 and is payable to BB&T Government Finance in semi-annual installments of \$23,957, including interest of 2.27% through August 12, 2020. -

Non-interest-bearing note payable, issued for a maximum amount of \$13,988,328, payable to NC Water Pollution Revolving Fund for Badin Lake Sewer Capital Project in 20 annual installments. 10,491,246

\$10,997,773

**HANDY SANITARY DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2021**

**NOTE 8 – LONG-TERM OBLIGATIONS (Continued)**

The following table summarizes the debt service requirements to maturity, including interest, of the long-term debt outstanding:

| Year Ending<br>June 30, | Principal            | Interest         | Total                |
|-------------------------|----------------------|------------------|----------------------|
| 2022                    | 882,444              | 12,561           | 895,005              |
| 2023                    | 814,233              | 7,884            | 822,117              |
| 2024                    | 743,475              | 5,754            | 749,229              |
| 2025                    | 744,766              | 4,463            | 749,229              |
| 2026                    | 746,095              | 3,134            | 749,229              |
| Thereafter              | 7,066,760            | 2,123            | 7,068,883            |
|                         | <u>\$ 10,997,773</u> | <u>\$ 35,919</u> | <u>\$ 11,033,692</u> |

The changes in long-term debt for the year ended June 30, 2021 are as follows:

|                      | June 30, 2020        | Increases        | Decreases         | June 30, 2021        | Current<br>Portion |
|----------------------|----------------------|------------------|-------------------|----------------------|--------------------|
| Notes payable        | \$ 11,899,345        | \$ -             | \$ 901,572        | \$ 10,997,773        | \$ 882,444         |
| Compensated absences | 40,070               | 37,843           | 39,278            | 38,635               | 38,635             |
| Total                | <u>\$ 11,939,415</u> | <u>\$ 37,843</u> | <u>\$ 940,850</u> | <u>\$ 11,036,408</u> | <u>\$ 921,079</u>  |

**NOTE 9 – SUMMARY OF DISCLOSURE OF SIGNIFICANT COMMITMENTS**

Water Purchase Contract

The District originally entered into a water purchase contract dated December 6, 1993 with the Town of Denton for a term of forty (40) years. On July 20, 2015 this contract was amended and extended through December 31, 2035. The contract included a right to purchase water at specified available gallon limits per day and rate calculation adjusted annually. The District participated in improvements to the Town's existing plant and engineering and administrative costs, which were financed by issuing general obligation water bond anticipation notes approved by a bond referendum vote. The contract is for the right to purchase water and not for the water itself. There is no intangible value in the right to purchase the water, so no intangible asset has been booked.

Land Lease Agreement

In 2009, the District renewed a lease for five years to give rights for the erection of a tower and equipment on a plot of the District's land. The lease calls for the District to receive \$1,000 monthly lease payments. The lease automatically renewed on January 16, 2014 at which time the lease payment increased based on the Consumer Price Index (CPI) to \$1,078. The lease renewed again in January 2019 with the lease payment increasing to \$1,168. The lease may be terminated at the end of any five-year term, otherwise it automatically renews.

**HANDY SANITARY DISTRICT**  
**Notes to the Financial Statements**  
**June 30, 2021**

**NOTE 10 – FEDERAL AND STATE ASSISTED PROGRAMS**

The District has received proceeds from grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that no refund will be required. No provisions have been made in the accompanying financial statements for the refund of grant monies.

**NOTE 11 – CAPITAL CONTRIBUTIONS**

The District received sewer tap fees in advance of providing the sewer services related to the Badin Lake Sewer Capital Project. The sewer tap fees were received contingent on the District completing construction of the sewer system included in the Badin Lake Sewer Project. As customers are able to access services, the tap fees are considered earned and recognized as capital contributions. For the year ended June 30, 2021, \$5,250 of these fees were recognized as revenue and unearned tap fees as of June 30, 2021 were \$22,000.

**NOTE 12 – MERGER AND REGIONALIZATION STUDIES**

On October 11, 2016, the District and the Town of Denton were awarded two grants from the Department of Environmental and Natural Resources. The grant proceeds, \$50,000 for water systems and \$50,000 for the sewer systems, will be used to conduct a study and determine if cost reductions and efficiencies can be achieved if the District and Town of Denton's water and sewer systems were to merge. The study will include an analysis of system infrastructure, operational cost, maintenance costs, and future capital needs. The merger and regionalization study was anticipated to take nine months. But after taking a more thorough review it took approximately 28 months. The Engineering Report has been completed to detail a No-Action Option and an Action Option. The Action Option was an offer by Handy Sanitary to begin to operate the water/sewer systems as a combined business with an asset transfer to Handy Sanitary District, while Handy Sanitary District would assume the outstanding debt on Town of Denton's water and sewer plus Handy Sanitary District would agree to hold the water/sewer rate for the Town of Denton constant for five years and to make anticipated major capital improvements that totaled more than \$5 million dollars over the next five years. The Town of Denton chose not to accept the District's offer. The No-Action Option was accepted by the Town of Denton. The Board of Handy Sanitary District stands ready to resume negotiations to create a combined business.

**NOTE 13 – SUBSEQUENT EVENTS**

The District has evaluated subsequent events through November 24, 2021, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

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## **SUPPLEMENTARY INFORMATION**

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**HANDY SANITARY DISTRICT**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2021**  
**With Comparative Amounts For The Year Ended June 30, 2020**

|                                 | 2021              |                   | Variance Over<br>(Under) | 2020              |
|---------------------------------|-------------------|-------------------|--------------------------|-------------------|
|                                 | Budget            | Actual            |                          | Actual            |
| <b>REVENUES:</b>                |                   |                   |                          |                   |
| Operating revenues:             |                   |                   |                          |                   |
| Water charges                   | \$ 1,625,000      | \$ 1,685,817      | \$ 60,817                | \$ 1,592,620      |
| Sewer charges                   | 1,581,040         | 1,667,822         | 86,782                   | 1,626,688         |
| Sewer pump sales                | 55,000            | 114,088           | 59,088                   | 45,250            |
| Miscellaneous operating revenue | 352,522           | 272,560           | (79,962)                 | 112,565           |
| Total operating revenues        | <u>3,613,562</u>  | <u>3,740,287</u>  | <u>126,725</u>           | <u>3,377,123</u>  |
| Non-operating revenues:         |                   |                   |                          |                   |
| Interest income                 | 8,000             | 6,268             | (1,732)                  | 12,956            |
| Gain on sale of asset           | -                 | 6,700             | 6,700                    | 1,300             |
| Total non-operating revenues    | <u>8,000</u>      | <u>12,968</u>     | <u>4,968</u>             | <u>14,256</u>     |
| Total revenues                  | <u>3,621,562</u>  | <u>3,753,255</u>  | <u>131,693</u>           | <u>3,391,379</u>  |
| <b>EXPENDITURES:</b>            |                   |                   |                          |                   |
| Water purchases                 | 610,000           | 583,052           | (26,948)                 | 480,597           |
| Water distribution:             |                   |                   |                          |                   |
| Salaries and wages              | 194,000           | 165,751           | (28,249)                 | 168,753           |
| Payroll taxes                   | 16,900            | 12,432            | (4,468)                  | 12,519            |
| Group insurance                 | 35,000            | 29,834            | (5,166)                  | 32,957            |
| Employee benefits               | 7,000             | 4,649             | (2,351)                  | 5,690             |
| Uniforms                        | 3,100             | 2,554             | (546)                    | 2,772             |
| Water analysis                  | 5,000             | 3,992             | (1,008)                  | 4,052             |
| General supplies                | 7,000             | 2,223             | (4,777)                  | 5,333             |
| Parts, repairs, and maintenance | 132,000           | 105,052           | (26,948)                 | 130,711           |
| Truck and fuel expense          | 12,000            | 9,647             | (2,353)                  | 9,355             |
| Utilities                       | 20,000            | 17,865            | (2,135)                  | 15,726            |
| Telephone and communications    | 4,200             | 3,226             | (974)                    | 3,701             |
| General insurance               | 35,000            | 26,567            | (8,433)                  | 29,561            |
| Employee training               | 8,500             | 1,001             | (7,499)                  | 437               |
| Miscellaneous                   | 200               | 456               | 256                      | 156               |
| Total water distribution        | <u>\$ 479,900</u> | <u>\$ 385,249</u> | <u>\$ (94,651)</u>       | <u>\$ 421,723</u> |

**HANDY SANITARY DISTRICT**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2021**  
**With Comparative Amounts For The Year Ended June 30, 2020**

|                                      | 2021       |            | Variance Over<br>(Under) | 2020       |
|--------------------------------------|------------|------------|--------------------------|------------|
|                                      | Budget     | Actual     |                          | Actual     |
| Sewer system:                        |            |            |                          |            |
| Salaries and wages                   | \$ 245,000 | \$ 218,106 | \$ (26,894)              | \$ 195,196 |
| Payroll taxes                        | 20,900     | 16,427     | (4,473)                  | 14,641     |
| Group insurance                      | 44,000     | 35,290     | (8,710)                  | 31,465     |
| Employee benefits                    | 12,000     | 11,173     | (827)                    | 9,223      |
| Uniforms                             | 3,200      | 2,323      | (877)                    | 2,522      |
| Chemicals                            | 25,000     | 14,104     | (10,896)                 | 16,718     |
| General supplies                     | 11,000     | 3,953      | (7,047)                  | 4,752      |
| Parts, repairs, and maintenance      | 395,000    | 382,387    | (12,613)                 | 267,059    |
| Truck expenses                       | 20,000     | 11,947     | (8,053)                  | 14,296     |
| Utilities                            | 75,000     | 66,613     | (8,387)                  | 67,545     |
| Telephone and communications         | 4,000      | 1,673      | (2,327)                  | 1,937      |
| General insurance                    | 9,000      | 4,956      | (4,044)                  | 5,631      |
| Employee training                    | 3,000      | 411        | (2,589)                  | 195        |
| Miscellaneous                        | 3,000      | 2,566      | (434)                    | 1,891      |
| Sewer pumps                          | 110,000    | 134,467    | 24,467                   | 30,512     |
| Total sewer system                   | 980,100    | 906,396    | (73,704)                 | 663,583    |
| Water and sewer administration:      |            |            |                          |            |
| Salaries and wages                   | 204,000    | 195,676    | (8,324)                  | 188,314    |
| Directors' fees                      | 17,700     | 17,700     | -                        | 16,200     |
| Payroll taxes                        | 17,900     | 16,311     | (1,589)                  | 15,461     |
| Group insurance                      | 35,000     | 34,619     | (381)                    | 32,817     |
| Employee benefits                    | 9,000      | 8,558      | (442)                    | 8,417      |
| Professional services                | 160,000    | 119,430    | (40,570)                 | 129,195    |
| Repairs and maintenance              | 22,000     | 13,855     | (8,145)                  | 11,741     |
| Utilities                            | 7,000      | 5,815      | (1,185)                  | 7,943      |
| Telephone and communications         | 8,000      | 8,060      | 60                       | 7,752      |
| General insurance                    | 5,000      | 4,742      | (258)                    | 4,537      |
| Employee training                    | 500        | -          | (500)                    | 146        |
| Office supplies                      | 9,300      | 6,701      | (2,599)                  | 8,941      |
| Billing supplies and postage         | 24,000     | 22,141     | (1,859)                  | 22,294     |
| General taxes and licenses           | 7,200      | 4,430      | (2,770)                  | 3,612      |
| Miscellaneous                        | 1,000      | 971        | (29)                     | 977        |
| Total water and sewer administration | \$ 527,600 | \$ 459,009 | \$ (68,591)              | \$ 458,347 |



**HANDY SANITARY DISTRICT**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**For the Year Ended June 30, 2021**  
**With Comparative Amounts For The Year Ended June 30, 2020**

|  | 2021        |                   | Variance Over<br>(Under) | 2020              |
|--|-------------|-------------------|--------------------------|-------------------|
|  | Budget      | Actual            |                          | Actual            |
| Debt service:  |             |                   |                          |                   |
| Interest   |             | \$ 17,389         |                          | \$ 18,728         |
| Principal payments   |             | 901,572           |                          | 920,027           |
| Total debt service   | \$ 918,962  | 918,961           | \$ (1)                   | 938,755           |
| Capital outlay   | 105,000     | 13,810            | (91,190)                 | 62,180            |
| Total expenditures   | 3,621,562   | 3,266,477         | (355,085)                | 3,025,185         |
| Revenues over expenditures   | -           | 486,778           | 486,778                  | 366,194           |
| Other financing sources (uses):  |             |                   |                          |                   |
| Appropriated fund balance  | -           | -                 | -                        | -                 |
| Revenues and other financing sources over expenditures<br>and other financing uses | <u>\$ -</u> | 486,778           | <u>\$ 486,778</u>        | <u>\$ 366,194</u> |
| Reconciliation of modified accrual basis to<br>full accrual:                       |             |                   |                          |                   |
| Principal payments on debt   |             | 901,572           |                          |                   |
| Change in compensated absences   |             | 1,435             |                          |                   |
| Change in accrued interest   |             | 1,890             |                          |                   |
| Change in unearned tap fees  |             | 40,752            |                          |                   |
| Bad debt provision   |             | (7,296)           |                          |                   |
| Capital outlay   |             | 13,810            |                          |                   |
| Depreciation   |             | (641,561)         |                          |                   |
| Change in net position   |             | <u>\$ 797,380</u> |                          |                   |

**HANDY SANITARY DISTRICT**  
**State Award Capital Project - Badin Lake Sewer Capital Project**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)**  
**From Inception and For The Year Ended June 30, 2021**

|   | Project<br>Authorization | Actual              |                    |                     |
|---|--------------------------|---------------------|--------------------|---------------------|
|   |                          | Prior Years         | Current Year       | Total to Date       |
| <b>REVENUES:</b>  |                          |                     |                    |                     |
| State Clean Water Grant   | \$ 3,000,000             | \$ 3,000,000        | \$ -               | \$ 3,000,000        |
| Tap fees  | 2,098,500                | 2,005,400           | 5,250              | 2,010,650           |
| Pump sales  | 761,500                  | 761,225             | 22,250             | 783,475             |
| Interest income   | 106,000                  | 116,592             | 134                | 116,726             |
| Other   | 1,000,000                | 1,025,000           | -                  | 1,025,000           |
| Total revenues  | <u>6,966,000</u>         | <u>6,908,217</u>    | <u>27,634</u>      | <u>6,935,851</u>    |
| <b>EXPENDITURES:</b>  |                          |                     |                    |                     |
| Construction  | 16,643,000               | 16,653,542          | -                  | 16,653,542          |
| Engineering   | 1,591,000                | 1,590,945           | -                  | 1,590,945           |
| Professional services   | 550,000                  | 515,482             | -                  | 515,482             |
| Land purchase   | 57,000                   | 56,955              | -                  | 56,955              |
| Sewer pumps   | 140,000                  | 137,983             | -                  | 137,983             |
| Closing costs   | 237,570                  | 237,570             | -                  | 237,570             |
| Inspection  | 900,000                  | 900,000             | -                  | 900,000             |
| Other   | 135,600                  | 116,721             | -                  | 116,721             |
| Administration  | 236,800                  | 236,800             | -                  | 236,800             |
| Contingency   | 458,122                  | 342,136             | 47,706             | 389,842             |
| Total expenditures  | <u>20,949,092</u>        | <u>20,788,134</u>   | <u>47,706</u>      | <u>20,835,840</u>   |
| Revenue under expenditures  | <u>(13,983,092)</u>      | <u>(13,879,917)</u> | <u>(20,072)</u>    | <u>(13,899,989)</u> |
| Other financing sources (uses):   |                          |                     |                    |                     |
| Interest expense  | (5,236)                  | (5,236)             | -                  | (5,236)             |
| Debt proceeds   | 13,988,328               | 13,988,334          | -                  | 13,988,334          |
| Total other financing sources   | <u>13,983,092</u>        | <u>13,983,098</u>   | <u>-</u>           | <u>13,983,098</u>   |
| Revenue and other financing sources over<br>(under) expenditures and other financing uses | <u>\$ -</u>              | <u>\$ 103,181</u>   | <u>\$ (20,072)</u> | <u>\$ 83,109</u>    |
| Total project expenditures to date:   |                          |                     | \$ 20,835,840      |                     |
| Capitalized in prior years  |                          |                     | (20,314,506)       |                     |
| Capitalized in current year   |                          |                     | -                  |                     |
| Noncapitalized costs  |                          |                     | (521,334)          |                     |
| Total capital projects in progress  |                          |                     | <u>\$ -</u>        |                     |

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## **COMPLIANCE SECTION**

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**Independent Auditors' 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***

To the Board of Directors  
Handy Sanitary District  
Denton, North Carolina

We have audited, 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, the financial statements of Handy Sanitary District (the District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 24, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 financial statements. 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*.

## District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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, the communication is not suitable for any other purpose.

*RH CPAs, PLLC*

Lexington, North Carolina  
November 24, 2021

**HANDY SANITARY DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2021**

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

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**Financial Statements**

|   |  |
|---|--|
| Type of auditor's report issued:  | Unmodified   |
| Internal control over financial reporting:  |  |
| Material weakness(es) identified?   | <input type="checkbox"/> yes <input checked="" type="checkbox"/> no            |
| Significant deficiency(ies) identified that are not considered to be material weakness(es)? | <input checked="" type="checkbox"/> yes <input type="checkbox"/> none reported |
| Noncompliance material to financial statements noted  | <input type="checkbox"/> yes <input checked="" type="checkbox"/> no            |

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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**Finding 2021-001 - Segregation of Duties**

**Significant Deficiency**

**Criteria:**

A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

**Condition:**

Due to the limited number of personnel in the District office, there are inherent limitations to segregation of duties among District personnel. Management is aware of this deficiency, but cost-benefit analysis indicates that hiring more personnel to mitigate this issue is not feasible.

**Effect:**

Inadequate segregations of duties could make fraud prevention, detection, and investigation difficult, and could potentially lead to misstated financial statements.

**HANDY SANITARY DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2021**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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**Cause:**

The cost of hiring additional personnel to adequately address segregation of duties is not something management plans to do.

**Recommendation:**

We encourage management and the Board of Directors to continue to closely monitor financial statements for reasonableness and fluctuations from the budget. Additionally, we recommend reviewing internal controls on an ongoing basis to determine any additional controls that may be implemented with limited personnel.

**Views of responsible officials:**

The District's management concurs with the finding as written. See the Corrective Action Plan for more information.

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**SECTION III - QUESTIONED COSTS**

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**Questioned Cost:**

Not applicable



## ***Handy Sanitary District***

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### SECTION II - FINANCIAL STATEMENT FINDINGS

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#### **Finding 2021-001 - Segregation of Duties**

**Name of Contact Person:** Lisa Hedrick, Finance and Office Manager

**Corrective Action:** We agree with the finding as presented; however, we have determined through a cost-benefit analysis that it would not be cost effective or feasible to add the additional personnel to mitigate the inherent limitations to segregation of duties.



**HANDY SANITARY DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2021**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

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| <u>Finding<br/>Number</u> | <u>Description</u>   | <u>Status</u> |
|---------------------------|--|---------------|
| 2020-001                  | Management does not have a system in place that produces a complete set of financial statements in accordance with GAAP. | Resolved      |