

REVIEWED

By SLGFD at 7:55 am, Nov 15, 2021

**The Financial Statements of
Junaluska Sanitary District**



Lake Junaluska, NC

For the Years Ended June 30, 2021 and 2020

DISTRICT OFFICIALS

CHAIRMAN

Jim Francis

BOARD MEMBERS

Dan McCracken

W.R. Cunningham

Jim King

William Barker

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Independent Auditor's Report

To the Board of Directors
Junaluska Sanitary District
Lake Junaluska, North Carolina 28745

Report on the Financial Statements

I have audited the accompanying financial statements of the Junaluska Sanitary District, as of and for the years ended June 30, 2021 and 2020 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.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used

and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Junaluska Sanitary District as of June 30, 2021 and 2020 and the respective changes in financial position and cash flows thereof for the years 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 4 through 6, and the Schedules for the Proportionate Share of the Net Pension Liability and Contributions on pages 28 and 29, respectively, be presented to supplement the basic financial statements. Such information, although not a required 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 statement in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

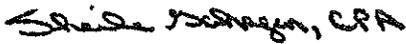
My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Junaluska Sanitary District. The budgetary schedules and ad valorem tax schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a part of the basic financial statements.

The budgetary schedules, ad valorem schedules and schedule of expenditures of federal awards are the responsibility of management and were 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 my opinion the budgetary schedules, ad valorem tax schedules and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Governmental Auditing Standards*, I have also issued my report dated October 27, 2021 on my consideration of Junaluska Sanitary District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report solely is to describe the scope of my 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 *Governmental Auditing Standards* in considering Junaluska Sanitary District's internal control over financial reporting and compliance.



Sheila Gahagan, CPA
October 27, 2021

Management's Discussion and Analysis

This section of the Junaluska Sanitary District's (*the District*) financial report represents our discussion and analysis of the financial performance of the District for the year ended June 30, 2021. This information should be read in conjunction with the audited financial statements included in this report.

Financial Highlights

- The District's total net position increased \$265,052. At June 30, 2021, net position totaled \$13,256,167, an increase of 2.04%.
- Net investment in capital assets increased by \$641,330 (or 6.50%), as compared to the previous year's end. Unrestricted net position decreased by \$357,932 to \$2,752,873 during the FYE June 30, 2021.
- The operating revenues were \$2,528,982 and operating expenses were \$2,721,360 for the fiscal year.
- The District's total debt increased during the current fiscal year to \$9,127,656 due to additional loan proceeds of \$178,924 for the Highway 209/I-40 sewer project and loan proceeds of \$2,002,398 for the Water Infrastructure project.

Overview of the Financial Statements

The audited financial statements of the Junaluska Sanitary District consist of three components. They are as follows:

- *Management's Discussion and Analysis*
- *Basic Financial Statements*
- *Supplemental Financial Data*

The *Basic Financial Statements* are prepared using the full accrual basis of accounting. They consist of three statements. The first statement is the statement of net position. Assets and liabilities are classified as current or long-term. This statement provides a summary of the District's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement.

The next statement is the statement of revenues, expenses, and changes in net position. This statement is used in evaluating whether the District has recovered all of its costs through revenues. Its information is used in determining creditworthiness.

The final required statement is the statement of cash flows. This statement reports cash inflows and outflows in the following categories: operating, investing, and financing activities. Based on this data, the user can determine the sources of cash, the uses of cash, and the change in cash.

The notes to the financial statements provide more detailed information and should be read in conjunction with the statements.

The District has chosen to include some schedules in addition to the information required by generally accepted accounting principles. They include a statement of revenues, expenses, and supplemental budget expenditures which includes a budgeted to actual cost comparison, a schedule of ad valorem taxes receivable, and an analysis of current tax levy.

Financial Analysis of the Junaluska Sanitary District

Net position is an indicator of the fiscal health of the District. Assets exceeded liabilities by \$13,256,167, \$12,991,115 and \$12,121,347 in 2021, 2020 and 2019, respectively. Following is a summary of the net position:

Table 1
Condensed Statement of Net Position

	6/30/2021	6/30/2020	6/30/2019	This year over over last year	
				\$ Change	% Change
Current assets	\$ 4,140,024	\$ 4,037,611	\$ 3,588,677	\$ 102,413	2.54%
Restricted assets	194,131	352,747	485,789	(158,616)	-44.97%
Non-current assets	19,630,950	17,094,430	12,343,341	2,536,520	14.84%
Deferred outflows of resources	116,513	105,252	92,567	11,261	10.70%
Total assets and deferred outflows of resources	24,081,618	21,590,040	16,510,374	2,491,578	11.54%
Current liabilities	2,064,165	1,769,250	936,992	294,915	16.67%
Non-current liabilities	8,747,426	6,827,746	3,448,712	1,919,680	28.12%
Deferred inflows of resources	13,860	1,929	3,323	11,931	618.51%
Total liabilities and deferred inflows of resources	10,825,451	8,598,925	4,389,027	2,226,526	25.89%
Net investment in capital assets	10,503,294	9,861,964	8,718,007	641,330	6.50%
Restricted net position	-	18,346	-	(18,346)	100.00%
Unrestricted net position	2,752,873	3,110,805	3,403,340	(357,932)	-11.51%
Total net position	13,256,167	12,991,115	12,121,347	265,052	2.04%
Total liabilities, deferred inflows of resources, and net position	\$ 24,081,618	\$ 21,590,040	\$ 16,510,374	\$ 2,491,578	11.54%

Net position increased by 2.04% from the fiscal year ended 2021 compared to an increase of 7.18% between 2020 and 2019.

Following is a summary of the changes in net position:

Table 2
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	6/30/2021	6/30/2020	6/30/2019	This year over last year	
				\$ Change	% Change
Operating revenues	\$ 2,528,982	\$ 2,485,380	\$ 2,430,789	\$ 43,602	1.75%
Operating expenses	2,721,360	2,468,003	2,303,704	253,357	10.27%
Operating income	(192,378)	17,377	127,085	(209,755)	-1207.08%
Plus: Non-operating revenues	457,430	852,391	451,524	(394,961)	-46.34%
Change in net position	265,052	869,768	578,609	(604,716)	-69.53%
Net position, beginning	12,991,115	12,121,347	11,542,738	869,768	7.18%
Net position, ending	\$ 13,256,167	\$ 12,991,115	\$ 12,121,347	\$ 265,052	2.04%

Following is a breakdown of sales by source:

	6/30/2021	6/30/2020	6/30/2019	This year over last year	
				\$ Change	% Change
Charges for services	\$ 2,432,786	\$ 2,397,442	\$ 2,363,312	\$ 35,344	1.47%
Water and sewer taps	64,752	61,440	38,363	3,312	5.39%
Pump station maintenance fees	13,527	13,417	14,782	110	0.82%
Miscellaneous	17,917	13,081	14,332	4,836	36.97%
Total operating revenues	\$ 2,528,982	\$ 2,485,380	\$ 2,430,789	\$ 43,602	1.75%

Capital Asset and Debt Administration

Capital Assets

Capital assets increased by 13.51% during the year ended June 30, 2021. Capital assets increased by 30.91% during the year ended June 30, 2020. Capital assets increased by 9.95% during the year ended June 30, 2019.

Table 3
Summary of Changes in Capital Assets

	6/30/2021	6/30/2020	6/30/2019	This year over last year	
				\$ Change	% Change
Furniture, fixtures, and equipment	595,997	556,806	550,559	\$ 39,191	7.04%
Water plant	3,874,239	3,874,239	3,923,942	-	0.00%
Buildings	229,355	229,355	229,355	-	0.00%
Land	260,800	260,800	260,800	-	0.00%
Sewer line	13,353,001	9,431,579	9,431,579	3,921,422	41.58%
Construction in progress	5,989,193	7,057,810	1,958,540	(1,068,617)	-15.14%
Total	\$ 24,302,585	\$ 21,410,589	\$ 16,354,775	\$ 2,891,996	13.51%

Capital Asset and Debt Administration, continued

The District continued the Water Infrastructure project. The District completed the Hwy 209/I-40 Sewer Project during the year ended June 30, 2021 and closed out with NCDEQ/SRF as well as Golden Leaf in September 2021. The District continued the Water Infrastructure Capital Project and as of June 30, 2021 was approximately 98% complete.

Debt Administration

As of June 30, 2021, the district had debt outstanding of \$9,127,656 which was comprised of four notes payable and a capital lease payable. The District's debt includes three zero-interest loans awarded by North Carolina Department of the Environment and Natural Resources to be used to construct new water and sewer lines. The District was awarded another loan, also from NCDENR, for a meter replacement project subject to interest at a rate of 1.53%, payments began in November 2018. The District also financed construction equipment through a capital lease in August 2017. The capital lease requires monthly installments at 4.2 % interest followed by a balloon payment at the end of five years.

Table 4
Summary of Changes in Total Debt Outstanding

	6/30/2021	6/30/2020	6/30/2019	\$ Change	% Change
Notes payable outstanding	\$ 9,127,656	\$ 7,232,466	\$ 3,625,334	\$ 1,895,190	26.20%
Total debt outstanding	\$ 9,127,656	\$ 7,232,466	\$ 3,625,334	\$ 1,895,190	26.20%

Economic Factors

The District has been affected by increasing operating and administrative costs. Additionally, the Town of Waynesville periodically increases the rate at which they provide water and for the treatment of sewage. When the Town of Waynesville increases these rates, the District increases the charges to their customers proportionately. It should be noted that the District has not always passed along the full increase from Waynesville and over the past 7 years has only increased a portion of the higher rates charged by the Town of Waynesville. The District's financials were impacted from the Covid-19 pandemic due to lower usage of our Commercial customers. Residential usage slightly increased but the volume of Commercial users decreased. The revenue impact of this was not material but the cost to operations continued to increase. The District did not reduce its operation, nor did it cut back on its manpower or administration.

Budget Highlights for the Fiscal Year Ending June 30, 2022

For the Fiscal year 2021-2022, the Junaluska Sanitary District's Board approved and adopted the budget for general operations. The District has one capital project budget that remains in place as previously adopted in the fiscal year 2018-2019 and amended during the FYE June 30, 2021.

General Operations budget

Budgeted revenues are expected to increase due to rate increase adjustments as well as commercial usage increase due to the lessening impact of Covid-19. Budgeted expenses are expected to increase due to purchased water and sewer increases, operational repair and maintenance of existing lines, operational projects and additional staffing. The District is planning on numerous repairs and improvements on older water lines that are undersized and outdated materials. There are multiple lines throughout the district that are near or approaching the end of their expected life. Furthermore, inventory and materials are expected to greatly increase by our suppliers as well as extended lead times on when materials will be available. The District will be impacted by this and has planned accordingly. Other expenses are expected to remain materially consistent.

Capital Project Funds budget

Water Infrastructure Project: Construction for this project began in October 2019 and was completed in September 2021. The project was 98% complete at 6/30/2021. This project is funded through SRF.

Oak Park/Hill-N-Dale Project: This is a project still in development and the District is working on the application process through the State Revolving Fund (SRF). We applied in FY 20/21 but did not rank high enough but we re-applied in September 2021. We are waiting on results of our application later this year. If approved, the District will move forward with the Engineering process through SRF and DEQ permitting. The project consists of replacing and upgrading undersized sized water lines within two residential communities that serve over 240 customers. Currently the District has a moratorium in place due to the undersized existing 2-inch lines.

Requests for Information

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

Josh Nickol, Chief Finance Officer
Junaluska Sanitary District
588 Old Clyde Road
Clyde, NC 28721

JUNALUSKA SANITARY DISTRICT**EXHIBIT A**Water and Sewer Fund
Statements of Net Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,603,935	\$ 3,463,078
Accounts receivable	206,862	169,461
Unbilled accounts receivable (net)	210,502	207,927
Due from other governments	14,081	9,712
Taxes receivable (net)	2,030	1,502
Prepaid expenses	8,124	8,115
Supplies inventory	94,490	177,816
Restricted cash and cash equivalents	<u>194,131</u>	<u>352,747</u>
Total current assets	4,334,155	4,390,358
Capital assets		
Land and construction in progress not being depreciated	6,249,993	7,318,610
Capital assets, at cost, net of accumulated depreciation	<u>13,380,957</u>	<u>9,775,820</u>
Total capital assets	<u>19,630,950</u>	<u>17,094,430</u>
Deferred outflows of resources		
Pension deferrals	<u>116,513</u>	<u>105,252</u>
Total assets and deferred outflows	<u><u>\$ 24,081,618</u></u>	<u><u>\$ 21,590,040</u></u>

See accountant's report and accompanying notes.

JUNALUSKA SANITARY DISTRICT**EXHIBIT A**

Water and Sewer Fund
 Statements of Net Position
 June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,032,334	\$ 709,981
Unearned revenue	12,878	10,904
Current portion of long-term liabilities	574,624	574,037
Contract retainage	250,300	285,899
Liabilities payable from restricted assets:		
Customer meter deposits	<u>194,029</u>	<u>188,429</u>
Total current liabilities	2,064,165	1,769,250
Non-current liabilities		
Due in more than one year	8,553,032	6,658,429
Net pension liability	<u>194,394</u>	<u>169,317</u>
Total non-current liabilities	8,747,426	6,827,746
Total liabilities	<u>10,811,591</u>	<u>8,596,996</u>
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals	<u>13,860</u>	<u>1,929</u>
NET POSITION		
Net investment in capital assets	10,503,294	9,861,964
Restricted for Hwy 209/I-40 sewer project	-	18,346
Unrestricted net position	<u>2,752,873</u>	<u>3,110,805</u>
Total net position	<u>13,256,167</u>	<u>12,991,115</u>
Total liabilities, deferred inflows and net position	<u><u>\$ 24,081,618</u></u>	<u><u>\$ 21,590,040</u></u>

See accountant's report and accompanying notes.

JUNALUSKA SANITARY DISTRICT
Water and Sewer Fund
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2021 and 2020

EXHIBIT B

	2021	2020
OPERATING REVENUES		
Charges for services	\$ 2,432,786	\$ 2,397,442
Water and sewer taps	64,752	61,440
Pump station maintenance fees	13,527	13,417
Miscellaneous charges to customers	17,917	13,081
Total operating revenues	2,528,982	2,485,380
OPERATING EXPENSES		
Administrative and finance	383,606	303,845
Water treatment and distribution	1,213,270	1,148,064
Waste collection and treatment	769,008	711,369
Depreciation	355,476	304,725
Total operating expenses	2,721,360	2,468,003
OPERATING INCOME	(192,378)	17,377
NON-OPERATING REVENUES (EXPENSES)		
Ad Valorem taxes (net)	271,449	267,926
Interest income from investments	490	1,635
Capital contributions	-	-
Project fund revenues	2,500	-
Capital projects funding--Golden Leaf Grant	200,000	600,000
Interest expense	(17,649)	(18,868)
Bad debt recovered	50	1,042
Fire tax	590	656
Total non-operating revenues (expenses)	457,430	852,391
CHANGE IN NET POSITION	265,052	869,768
NET POSITION, BEGINNING OF YEAR,	12,991,115	12,121,347
NET POSITION, END OF YEAR	\$ 13,256,167	\$ 12,991,115

See accountant's report and accompanying notes.

JUNALUSKA SANITARY DISTRICT
Water and Sewer Fund
Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020

EXHIBIT C

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 2,490,980	\$ 2,478,530
Cash payments for goods and services	(1,504,762)	(1,357,272)
Cash payments to employees for services	(635,578)	(624,689)
Customer deposits received	38,675	52,663
Customer deposits returned	(33,075)	(50,503)
Net cash provided by operating activities	<u>356,240</u>	<u>498,729</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income earned on investments	<u>490</u>	<u>1,635</u>
Net cash provided by investing activities	490	1,635
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(2,725,969)	(4,385,424)
Principal payments on long-term debt	(286,133)	(285,751)
Loan proceeds received - Water Infrastructure	2,002,398	2,849,093
Loan proceeds received - Hwy 209/I-40	178,924	1,043,789
Interest paid on long term debt	(17,649)	(18,868)
Cash received from customers for non-operating activities	2,550	-
Capital contributions - local grant	200,000	600,000
Ad Valorem taxes and interest received	<u>271,390</u>	<u>267,832</u>
Net cash used by capital and related financing activities	<u>(374,489)</u>	<u>70,671</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (17,759)	 571,035
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>3,815,825</u>	 <u>3,244,790</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 3,798,066</u>	 <u>\$ 3,815,825</u>
 SCHEDULE OF CASH AND CASH EQUIVALENTS, END OF YEAR		
Cash and cash equivalents	\$ 3,603,935	\$ 3,463,078
Restricted cash and equivalents	194,131	352,747
	<u>\$ 3,798,066</u>	<u>\$ 3,815,825</u>

See accountant's report and accompanying notes.

JUNALUSKA SANITARY DISTRICT
Water and Sewer Fund
Statements of Cash Flows
For the Years Ended June 30, 2021 and 2020

EXHIBIT C

**RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:**

	<u>2021</u>	<u>2020</u>
Income from operations	\$ (192,378)	\$ 17,377
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation expense	355,476	304,725
Bad debt recovered	-	1,042
Pension expense as reported	69,150	79,597
Cash pension contributions	(43,403)	(33,488)
Change in assets and liabilities:		
(Increase) decrease in accounts receivables	(37,401)	47,074
(Increase) in unbilled accounts receivables	(2,575)	(56,243)
(Increase) decrease in sales tax refund receivable	(4,248)	4,534
(Increase) in other receivables	-	-
(Increase) decrease in inventory	83,326	19,852
(Increase) decrease in prepaid expenses	(9)	(190)
Increase (decrease) in accounts payable and accrued liabilities	122,972	102,211
Increase (decrease) in wages payable	(1,210)	6,663
Increase (decrease) in accrued employee benefits payable	(1,034)	2,138
Increase in unearned revenue, prepaid customer accounts	1,974	1,277
Increase (decrease) in customer deposits	5,600	2,160
Total adjustments	<u>548,618</u>	<u>481,352</u>
Net cash provided by operating activities	<u>\$ 356,240</u>	<u>\$ 498,729</u>

See accountant's report and accompanying notes.

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

I. Summary of Significant Accounting Policies

The accounting policies of the Junaluska Sanitary 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 Junaluska Sanitary District, which is governed by an elected five-member board, is a public body corporate and politic, created in accordance with the provisions of Chapter 130A, Article 2 General Statutes of North Carolina. The District was created for the purpose of providing sanitary water and sewer services to citizens within its legal boundaries. The District has no component units for which it is financially accountable and therefore no units are included in the financial statements.
- B. Basis of Presentation—Fund Accounting – The accounts of the Junaluska Sanitary District are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues and expenditures or expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The District uses the following fund category:

Proprietary Fund

Enterprise Fund – The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (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 Junaluska Sanitary District has one Enterprise Fund, the Water and Sewer Fund, two Capital Projects Funds, Water Infrastructure Project and Hwy 209/I-40 Sewer Project, which have been consolidated into the Water and Sewer Fund for financial reporting purposes.

- C. Measurement Focus and Basis of Accounting – In accordance with North Carolina General Statutes, the financial records are maintained during the year using the modified accrual basis of accounting.

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the 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. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, includes property taxes, grants

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

I. Summary of Significant Accounting Policies, continued

C. Measurement Focus and Basis of Accounting, continued

and donations. On the 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.

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 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 costs 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.

The District considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as receivable in these financial statements and are offset by deferred inflows of resources.

D. Budgetary Data - The District'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 enterprise fund projects are consolidated with the water and sewer fund for reporting purposes. The budget is prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the function level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change function level appropriations by more than \$5,000. The governing board must approve all amendments. The budget ordinance must be adopted by July 1st of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

I. Summary of Significant Accounting Policies, continued

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position

1. Deposits and Investments

All deposits of the District are made in board-designated official depositories and are secured as required by G.S. 159-31. The District may designate, as an official depository, any bank or savings 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.

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). The District's investments are carried at fair value as determined by quoted market prices.

2. Cash and Cash Equivalents

The Junaluska Sanitary District considers demand deposits and investments (including restricted assets) purchased with an original maturity of three months or less, which are not limited as to use, to be cash and cash equivalents.

3. Restricted Assets

Customer meter deposits held by the District are restricted to the service for which the deposit was collected. Unexpended loan and grant proceeds are restricted to the purpose of the awards.

4. Ad Valorem Taxes Receivable

In order to facilitate the construction of a district-wide sewer system the Junaluska Sanitary District imposed a property tax levy of six-cents per hundred dollars of valuation on property located within the district boundaries. The property tax levy is assessed and collected by the Tax Collector of Haywood County. In accordance with State law [G. S. 105-347 and G. S. 159-13 (a)], the District levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, penalties and interest do not accrue until the following January 5th. These taxes are based on the assessed values as of January 1, 2020.

5. 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 considering past due balances and historical write-offs.

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

1. Summary of Significant Accounting Policies, continued

6. Inventory and Prepaid Items

The inventory of the District is valued at cost (first-in, first-out), which approximates market. The inventories of the District consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items and expensed as the items are used.

7. Capital Assets

Property, plant, and equipment of the District are recorded at original cost at the time of acquisition. The District's minimum capitalization level is \$500. Donated property, plant, and equipment are recorded at the estimated fair market value at the date of donation. Any interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Water and sewer plant	50 years
Furniture and office equipment	5 years
Heavy maintenance equipment	7 years
Light trucks and maintenance equipment	5 years

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District has one item that meet this criterion: contributions made to the pension plan in the 2017 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District has one item that meet the criterion for this category: pension deferrals.

9. Compensated Absences

The vacation policy of Junaluska Sanitary District provides for the accumulation of up to twenty (20) days earned vacation leave with such leave being fully vested when earned. At fiscal year-end a provision is made in the financial statements for unused vacation days in accrued liabilities. For the District, an expense and a liability for compensated absences are recorded as the leave is earned. The District has assumed a first-in, first-out method of using accumulated compensated time. The balance of compensated absences potentially paid to all employees has been designated as a current liability in the financial statements.

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

I. Summary of Significant Accounting Policies, continued

Compensated Absences, continued

The District's sick leave policy provides for an annual twelve (12) days sick leave. The District's sick leave policy provides for an accumulation of twenty-four (24) days of sick leave. Sick leave does not vest. Since the District has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Position

Net position consists of the following:

- a. Investment in capital assets—This component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- b. Restricted net position—This component represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.
- c. Unrestricted net position—This component consists of net position that does not meet the definition of restricted or investment in capital assets.

11. Defined Benefit Cost-Sharing Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Junaluska Sanitary District's employer contributions are recognized when due and the Junaluska Sanitary District has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

F. Comparative Data/Reclassifications

Comparative total data for the prior year has been presented in the supplemental information sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Comparative totals have not been included on the statements where their inclusion would not provide enhanced understanding of the District's financial position and operations or would cause the statements to be unduly complex or difficult to understand. Also, certain amounts presented in the prior year's data have been reclassified to be consistent with the current year's presentation.

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

I. Summary of Significant Accounting Policies, continued

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

II. Stewardship, Compliance, and Accountability

A. For the fiscal year ended June 30, 2021, expenditures for the District's debt service exceeded the authorized appropriations made by the governing board by \$878. This over-expenditure occurred because of mis-coded interest expense of equipment capital lease payments for debt service. Management and the Board will more closely review the budget reports to ensure compliance in future years.

III. Detail Notes on All Funds and Account Groups

A. Assets

1. Deposits

All of the District's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage level are collateralized with securities held by the 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 agents in the District'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 with the escrow agent. Because of the inability to measure the exact amount 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.

At June 30, 2021, the District's deposits, including a certificate of deposit, had a carrying amount of \$3,796,301 and a bank balance of \$3,821,720. Of the bank balance, \$500,000 was covered by federal depository insurance, and \$3,321,720 covered by collateral held under the Pooling Method. The District had \$1,765 petty cash at June 30, 2021.

At June 30, 2020, the District's deposits, including a certificate of deposit, had a carrying amount of \$3,814,694 and a bank balance of \$3,962,806. Of the bank balance, \$500,000 was covered by federal depository insurance, and \$3,462,806 covered by collateral held under the Pooling Method. The District had \$1,131 petty cash at June 30, 2020.

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

III. Detail Notes on All Funds and Account Groups, continued

2. Receivables – Allowance for Doubtful Accounts

The amount presented in Exhibit A, the statements of net position, is net of the following allowance for doubtful accounts:

	<u>6-30-21</u>	<u>6-30-20</u>
Property taxes receivable	\$ 5,709	\$ 5,684
Unbilled accounts receivable	<u>44,062</u>	<u>44,062</u>
Total	\$49,771	\$49,746

3. Capital Assets

The capital assets of the District at June 30, 2021 are as follows:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
	<u>Balances</u>			<u>Balances</u>
Capital assets not being depreciated:				
Land	\$ 260,800	\$ -	\$ -	\$ 260,800
Construction in progress	7,057,810	2,852,805	3,921,422	5,989,193
Total capital assets not being depreciated	<u>7,318,610</u>	<u>2,852,805</u>	<u>3,921,422</u>	<u>6,249,993</u>
Capital assets being depreciated:				
Buildings	229,355	-	-	229,355
Equipment	316,309	5,202	-	321,511
Furniture and fixtures	10,910	-	-	10,910
Vehicles and motorized equipment	229,587	33,989	-	263,576
Water lines and plant	3,870,439	-	-	3,870,439
Sewer lines and plant	9,431,579	3,921,422	-	13,353,001
Telemetry	3,800	-	-	3,800
Total capital assets being depreciated	<u>14,091,979</u>	<u>3,960,613</u>	<u>-</u>	<u>18,052,592</u>
Less accumulated depreciation for:				
Buildings	80,799	6,797	-	87,596
Equipment	203,491	26,629	-	230,120
Furniture and fixtures	9,909	437	-	10,346
Vehicles and motorized equipment	181,587	25,866	-	207,453
Water lines and plant	688,963	8,039	-	697,002
Sewer lines and plant	3,150,118	287,632	-	3,437,750
Telemetry	1,292	76	-	1,368
Total accumulated depreciation	<u>4,316,159</u>	<u>355,476</u>	<u>-</u>	<u>4,671,635</u>
Governmental activity capital assets, net	<u>\$ 17,094,430</u>			<u>\$ 19,630,950</u>

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

III. Detail Notes on All Funds and Account Groups, continued

4. Restricted Assets

Customer deposits held by the District before any services are supplied are restricted to the service for which the deposit was collected. During the current year a capital contribution was received for Hwy 209 project, unspent amounts are restricted for the project.

		2021	2020
Water and Sewer Fund	Customer Deposits	\$ 194,029	\$ 188,429
	Unspent Grant Awards	102	164,318
Total Restricted Cash		\$ 194,131	\$ 352,747

Construction commitments

The District has active construction projects as of June 30, 2021. At year-end, the District's commitments with contractors are as follows:

	Spent-to-date	Remaining Commitment
Water Infrastructure Project	\$ 5,781,918	\$ 101,760
Oak Park and Hill-N-Dale Waterlines	-	172,512

B. Liabilities

Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Junaluska Sanitary District is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

III. Detail Notes on All Funds and Account Groups, continued

a. Local Governmental Employees' Retirement System, continued

five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Junaluska Sanitary District employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Junaluska Sanitary District's contractually required contribution rate for the year ended June 30, 2021, was 10.20% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Junaluska Sanitary District were \$43,403 for the year ended June 30, 2021.

Refunds of Contributions – District employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2021, the District reported a liability of \$194,394 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The District's proportion of the net pension asset was based on a projection of the District's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2021, the District's proportion was 0.00544%, which was an decrease of .00076% from its proportion measured as of June 30, 2020.

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

III. Detail Notes on All Funds and Account Groups, continued

a. Local Governmental Employees' Retirement System, continued

For the year ended June 30, 2021, the District recognized pension expense of \$69,150. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 24,549	\$ -
Changes of assumptions	14,467	-
Net difference between projected and actual earnings on pension plan investments	27,356	-
Changes in proportion and differences between District contributions and proportionate share of contributions	6,738	13,860
Employer contributions subsequent to the Measurement date	43,403	
Total	\$ 116,513	\$ 13,860

\$43,403 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2021	\$ 15,887
2022	22,641
2023	12,624
2024	8,096
2025	-
	\$ 59,248

Actuarial Assumptions. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

III. Detail Notes on All Funds and Account Groups, continued

a. Local Governmental Employees' Retirement System, continued

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2019 asset liability and investment policy study for the North Carolina Retirement Systems, including LRS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

III. Detail Notes on All Funds and Account Groups, continued

a. Local Governmental Employees' Retirement System, continued

Sensitivity of the District's proportionate share of the net pension asset to changes in the discount rate. The following presents the District's proportionate share of the net pension asset calculated using the discount rate of 7.0 percent, as well as what the District's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00)
District's proportionate share of the net pension liability (asset)	\$ 394,405	\$ 194,394	\$ 28,171

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Annual Comprehensive Financial Report (CAFR) for the State of North Carolina.

1. Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 456. The plan, which is available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

2. Other Employee Benefits

The District has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because the benefit payments are made by the Death Benefit Plan and not by the District, the District does not determine the number of eligible participants. The District has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amounts.

Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers.

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

III. Detail Notes on All Funds and Account Groups, continued

2. Other Employee Benefits

For the fiscal year ended June 30, 2021, the District made contributions of \$302 to the State for death benefits.

3. Unearned Revenue

The balance in unearned revenue at year-end is composed of the following elements:

	6-30-21	6-30-20
Prepaid customer accounts	\$ 12,878	\$ 10,904

5. Deferred Outflows and Inflows of Resources

The District has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

Source	Amount
Contributions to pension plan in current fiscal year	\$ 43,403
Differences between expected and actual experience	24,549
Changes of assumptions	14,467
Net differences between projected and actual earnings on pension plan investments	27,356
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,738
Total	\$ 116,513

Deferred inflows of resources at year-end is comprised of the following:

Differences between expected and actual experience	\$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	13,860
Total	\$ 13,860

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

III. Detail Notes on All Funds and Account Groups, continued

6. Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial coverage for all risks of loss, including property and general liability insurance, worker's compensation coverage up to statutory limits, and employees are offered health coverage. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

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 of the District is bonded up to \$50,000. The District's fidelity bond on the office manager is currently \$25,000; all other District employees are bonded up to an amount of \$10,000. The District has established an officers' and directors' bond of \$1,000,000. The District had no flood insurance coverage as of June 30, 2021.

7. Long-Term Obligations

The District has financed various projects in direct borrowings and acquired equipment by a capital lease. Property has not been pledged as collateral for any direct borrowing of the District.

a. Capital Lease

In August 2017, the District purchased a piece of construction equipment financed by a capital lease from the equipment manufacturer. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception. The terms of the lease executed with Caterpillar Financial Services Corporation requires \$100,200 to be repaid in fifty-eight monthly payments of \$1,342.96 plus interest at the rate of 4.20%. The final payment of \$35,422.96 will be required July 22, 2022. Title passes to the District at the end of the lease term.

The following is an analysis of the assets recorded under capital leases at June 30, 2021:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Cost</u>	<u>Net Book Value</u>
Equipment	\$100,200	\$56,198	\$44,002

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2021 were as follows:

<u>Year Ending June 30</u>	
2022	\$16,116
2023	<u>35,423</u>
Total minimum lease payments	51,539
Less: amount representing interest	<u>(1,753)</u>
Present value of the minimum lease payments	\$49,786

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

III. Detail Notes on All Funds and Account Groups, continued

7. Long-Term Obligations, continued

b. Note Payable—NCDENR

On April 19, 2011, the State of North Carolina Department of Environment and Natural Resources awarded a loan in the amount of \$1,787,500 at zero-percent interest. The note is required to be repaid in annual installments of \$89,375 over a term of twenty years. The proceeds from this loan were used to finance construction projects that will expand the District into previously unserved areas. The remaining balance at June 30, 2021 was \$983,125.

c. Note Payable—AMI SRF Promissory Note

On February 10, 2017 the State of North Carolina Department of Environmental Quality Division of Water Infrastructure awarded a maximum loan of \$1,145,925 for the AMI Meter Replacement Project. The note bears interest at 1.53%. Semi-annual payments of interest-only and interest-plus-principal will be required. The maximum annual principal required will be \$54,720 with interest due at various, declining amounts. The first scheduled payment was November 1, 2018. The remaining balance at June 30, 2021 is \$930,234.

d. Note Payable—NCDENER #2

On October 19, 2018, the State of North Carolina Department of Environment and Natural Resources awarded a loan in the amount of \$2,570,522 at zero-percent interest. The note is required to be repaid in annual installments of \$128,501 over a term of twenty years. The proceeds from this loan are to be used to finance construction projects that will expand the District into previously unserved areas near NC Highway 209 and Interstate 40. The remaining balance due at June 30, 2021 was \$2,313,020.

e. Note Payable—NCDENER #3

On August 21, 2019, the State of North Carolina Department of Environment and Natural Resources awarded a loan in the amount of \$5,754,465 at zero-percent interest. The note is required to be repaid in annual installments of \$287,723 over a term of twenty years. The proceeds from this loan are to be used to finance construction projects that will improve water infrastructure. This project is on-going, with proceeds drawn only as needed. The current amount of this loan at June 30, 2021 is \$4,851,491.

f. The future minimum payments of the direct borrowings as of June 30, 2021 are as follows:

<u>Year ended June 30:</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 574,624	\$16,043
2023	595,618	13,519
2024	560,319	12,558
2025	560,319	11,721
2026	560,319	10,884
2027-2031	2,801,595	41,861
2032-2036	2,444,095	20,930
2037-2039	<u>1,030,585</u>	<u>2,512</u>
Total	\$9,127,474	\$130,028

JUNALUSKA SANITARY DISTRICT
Notes to the Financial Statements
Years Ended June 30, 2021 and 2020

III. Detail Notes on All Funds and Account Groups, continued

7. Long-Term Obligations, continued

f. Changes in General Long-Term Debt, continued

The following is a summary of changes in general long-term debt for the year ended June 30, 2021:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion of Balance</u>
Net pension liability	\$ 169,317	\$ 25,077	\$ -	\$ 194,394	\$ -
Capitalized lease	63,323	-	13,537	49,786	14,305
Direct borrowings	<u>7,169,143</u>	<u>2,181,324</u>	<u>272,597</u>	<u>9,077,870</u>	<u>560,319</u>
Total	\$ 7,401,783	\$2,206,401	\$286,134	\$9,322,050	\$ 574,624

IV. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2021, consist of the following:

Due to the Water and Sewer Fund from the Water Infrastructure Capital Project Fund:

Time lag between the dates reimbursable expenditures occur	\$ 102
---	--------

V. Claims, Judgements and Contingent Liabilities

At June 30, 2021 the District was involved in an on-going lawsuit. In the opinion of the District's management and the District Attorney, the ultimate effect of this legal matter is not expected to have a material adverse effect on the District's financial position.

VI. Subsequent Events

Subsequent events have been considered through October 27, 2021, which is the date the financial statements were available to be issued.

Junaluska Sanitary District
Junaluska Sanitary District's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Eight Fiscal Years

Local Government Employees' Retirement System

	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset) (%)	0.00544%	0.00620%	0.00446%	0.00424%	0.00401%	0.00190%	0.00170%	0.00210%
District's proportion of the net pension liability (asset) (\$)	194,394	169,317	109,129	64,775	85,108	8,528	(10,084)	8,231
District's covered-employee payroll	371,678	348,490	221,191	206,072	182,925	238,151	113,234	113,234
District's proportionate share of the net pension liability (asset) as a percentage of it covered-employee payroll	52.30%	48.59%	49.34%	31.43%	46.53%	3.58%	-8.91%	7.27%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	94.18%	91.47%	98.08%	99.07%	102.64%	94.35%	96.45%

Junaluska Sanitary District
 Junaluska Sanitary District's Contributions
 Required Supplementary Information
 Last Eight Fiscal Years

Local Government Employees' Retirement System

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 43,403	\$ 33,488	\$ 27,008	\$ 18,078	\$ 16,302	\$ 13,910	\$ 13,006	\$ 17,004
Contributions in relation to the contractually required contribution	<u>43,403</u>	<u>33,488</u>	<u>27,008</u>	<u>18,078</u>	<u>16,302</u>	<u>13,910</u>	<u>13,006</u>	<u>17,004</u>
Contribution deficiency (excess)	<u>\$ -</u>							
District's covered-employee payroll	425,519	371,678	348,490	221,191	206,072	182,925	238,151	113,234
Contributions as a percentage of covered-employee payroll	10.20%	9.01%	7.75%	8.17%	7.91%	7.60%	5.46%	15.02%

JUNALUSKA SANITARY DISTRICT

Water and Sewer Fund

Schedule of Revenues, Expenses, and Supplemental Budget Expenditures

Budget and Actual (Non-GAAP)

For the Year Ended June 30, 2021

(With Comparative Actual Amounts for the Year Ended June 30, 2020)

	2021		Variance Favorable (Unfavorable)	2020
	Budgeted	Actual		Actual
REVENUES				
Operating revenues				
Water sales		\$ 1,195,112		\$ 1,196,160
Sewer charges		1,237,674		1,201,282
Tap fees		64,752		61,440
Pump station maintenance fees		13,527		13,417
Miscellaneous fees		17,917		13,081
Total operating revenues	2,692,674	2,528,982	(163,692)	2,485,380
Non-operating revenues				
Interest on investments		490		1,635
Ad valorem taxes		269,419		266,424
Customer project revenues		2,500		-
Bad debt recovery		50		1,042
Other non-operating revenue		590		656
Total non-operating revenues	645,601	273,049	(372,552)	269,757
Appropriation of fund balance	-	-	-	-
Total revenues	\$ 3,338,275	\$ 2,802,031	\$ (536,244)	\$ 2,755,137

JUNALUSKA SANITARY DISTRICT

Water and Sewer Fund

Schedule of Revenues, Expenses, and Supplemental Budget Expenditures

Budget and Actual (Non-GAAP)

For the Year Ended June 30, 2021

(With Comparative Actual Amounts for the Year Ended June 30, 2020)

	2021		Variance Favorable (Unfavorable)	2020
	Budgeted	Actual		Actual
EXPENSES				
Operating expenses				
Administration and finance				
Advertising		\$ -		\$ 76
Bad debt expense		35,813		8,159
Bank charges		13,201		12,365
Board member expense		45,000		45,000
Employee fringe benefits		29,283		17,299
Insurance		35,516		33,848
Miscellaneous		2,065		-
Office supplies and expenses		10,883		9,080
Postage		8,760		9,260
Professional services		62,873		37,789
Rent		100		100
Repairs and maintenance-building		77		1,341
Repairs and maintenance-equipment		2,518		2,016
Salaries		74,581		74,391
Software support		18,337		11,487
Telephone		13,506		12,924
Utilities		26,716		28,710
Total administration and finan	\$ 508,184	\$ 379,229	\$ 128,955	\$ 303,845
Operating expenses				
Water treatment and distribution				
Contracted services		\$ 26,023		\$ 3,345
Dues and subscriptions		3,352		3,180
Employee fringe benefits		148,554		174,514
Employee training		587		957
Engineering fees		34,662		16,536
GIS mapping		-		(35)
Water and sewer line repair and maintenance		4,530		13,124
Laundry		1,014		1,931
Salaries		355,168		322,560
Sensus annual network fee		18,000		17,862
Supplies		63,831		67,668
Vehicle expense		11,216		10,373
Vehicle repair		10,180		3,461
Water analysis		4,110		3,126
Water operational project		77,436		69,237
Water purchases		433,237		440,225
Total water treatment and dist	1,280,495	1,191,900	88,595	1,148,064

JUNALUSKA SANITARY DISTRICT

Water and Sewer Fund

Schedule of Revenues, Expenses, and Supplemental Budget Expenditures
Budget and Actual (Non-GAAP)

For the Year Ended June 30, 2021

(With Comparative Actual Amounts for the Year Ended June 30, 2020)

	2021		Variance Favorable (Unfavorable)	2020
	Budgeted	Actual		Actual
EXPENSES				
Waste collection and treatment				
Pump station maintenance		4,991		10,250
Sewer treatment		764,017		701,119
Total waste collection and treatment	806,194	769,008	37,186	711,369
Total operating expenses	2,594,873	2,340,137	254,736	2,163,278
Debt service:				
Principal		286,132		285,751
Interest		17,649		18,868
Total debt service	302,903	303,781	(878)	304,619
Capital outlay:				
Furniture and equipment		-		-
Equipment		5,202		6,247
Vehicle purchase		33,989		-
Construction in progress		157,574		-
Total capital outlay	440,499	196,765	243,734	6,247
Total expenditures	3,338,275	2,840,683	497,592	2,474,144
Revenues over (under) expenditures	-	(38,652)	(38,652)	280,993
Other financing sources (uses):				
Transfer to Water Infrastructure	-	-	-	(115,089)
Total other financing sources (uses):	-	-	-	(115,089)
Revenues and other sources over (under) expenditures and other uses	-	(38,652)	(38,652)	165,904
Reconciling items:				
Depreciation expense		(355,476)		(304,725)
Capital outlay		196,765		6,247
Taxes receivable deferral		2,030		1,502
Loan proceeds - water fund		2,002,400		2,849,092
Increase in long term debt - water fund		(2,002,400)		(2,849,092)
Loan proceeds - Hwy 209/I-40		178,924		1,043,789
Increase in long-term debt - Hwy 209/I-40		(178,924)		(1,043,789)
Capital outlay - capital project funds		2,695,231		5,049,568
Increase in capital assets		(2,695,231)		(5,049,568)
Net change in pension liability and resources		(25,747)		-
Transfer to Water Infrastructure project		-		115,089
Golden Leaf grant--Hwy 209/I-40		200,000		600,000
Principal paid on debt		286,132		285,751
Total reconciling items		303,704		703,864
Change in net position		\$ 265,052		\$ 869,768

Junaluska Sanitary District
Water and Sewer Capital Project Fund
Water Infrastructure Project
Schedule of Revenues, Expenditures and Changes in Fund Balance -- Budget and Actual
From inception and for the year ended June 30, 2021

	Project Authorization	Prior Years	Current Year	Total-to-date	Variance Favorable (Unfavorable)
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-	-
Expenditures					
Capital Outlay					
Construction & Installation	5,100,887	2,798,568	2,207,427	5,005,995	94,892
Engineering & administration	782,789	685,387	90,536	775,923	6,866
Contingency	-	-	-	-	-
Total expenditures	<u>5,883,676</u>	<u>3,483,955</u>	<u>2,297,963</u>	<u>5,781,918</u>	<u>101,758</u>
Revenues under expenditures	<u>(5,883,676)</u>	<u>(3,483,955)</u>	<u>(2,297,963)</u>	<u>(5,781,918)</u>	<u>101,758</u>
Other financing sources (uses):					
Loan proceeds - State Revolving Fund	5,768,587	2,849,092	2,002,400	4,851,492	(917,095)
General fund - matching funds	115,089	115,089	-	115,089	-
Total other financing sources (uses)	<u>5,883,676</u>	<u>2,964,181</u>	<u>2,002,400</u>	<u>4,966,581</u>	<u>(917,095)</u>
Revenue and other sources over (under) expenditures	<u>-</u>	<u>(519,774)</u>	<u>(295,563)</u>	<u>(815,337)</u>	<u>(815,337)</u>

Junaluska Sanitary District
Water and Sewer Capital Project Fund
Hwy 209/I-40 Sewer Project
Schedule of Revenues, Expenditures and Changes in Fund Balance -- Budget and Actual
From inception and for the year ended June 30, 2021

	Project Authorization	Prior Years	Current Year	Total-to-date	Variance Favorable (Unfavorable)
Revenues					
Haywood County	\$ 300,000	\$ 300,000	\$ -	\$ 300,000	\$ -
Golden Leaf	1,000,000	800,000	200,000	1,000,000	-
Total revenues	1,300,000	1,100,000	200,000	1,300,000	-
Expenditures					
Capital Outlay					
Construction & Installation	3,281,215	2,919,436	361,779	3,281,215	-
Engineering & administration	640,207	604,716	35,489	640,205	2
Contingency	-	-	-	-	-
Total expenditures	3,921,422	3,524,152	397,268	3,921,420	2
Revenues under expenditures	(2,621,422)	(2,424,152)	(197,268)	(2,621,420)	2
Other financing sources (uses):					
Loan proceeds - State Revolving Fund	2,570,022	2,391,098	178,924	2,570,022	-
General Fund--matching funds	51,400	51,400	-	51,400	-
Total other financing sources (uses)	2,621,422	2,442,498	178,924	2,621,422	-
Revenue and other sources over (under) expenditures	-	18,346	(18,344)	2	2

JUNALUSKA SANITARY DISTRICT
Water and Sewer Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2021

Fiscal Year	Uncollected Balance June 30, 2020	Additions	Collections and Credits	Uncollected Balance June 30, 2021
2020-2021	\$ -	\$ 273,271	\$ 269,972	\$ 3,299
2019-2020	2,921	-	1,573	1,348
2018-2019	901	-	367	534
2017-2018	620	-	195	425
2016-2017	473	-	66	407
2015-2016	236	-	41	195
2014-2015	215	-	1	214
2013-2014	393	-	29	364
2012-2013	527	-	13	514
2011-2012	446	-	7	439
2010-2011	454	-	454	-
	\$ 7,186	\$ 273,271	\$ 272,718	\$ 7,739
Less: allowance for uncollectible accounts				
Water and sewer fund				5,709
Ad valorem taxes receivable--net				
Water and sewer fund				\$ 2,030
Reconciliation with revenues				
Ad valorem taxes--Sanitary District Fund				\$ 271,449
Reconciling items				
Interest collected				(814)
Taxes written off				454
Discounts				1,629
Total collections and credits				\$ 272,718

JUNALUSKA SANITARY DISTRICT

Water and Sewer Fund

Analysis of Current Tax Levy

June 30, 2021

	District-wide			Total Levy	
	Property Valuation	Rate	Registered Amount of Levy	Property Excluding Registered Motor Vehicles	Motor Vehicles
Original Levy					
Property taxed at current year's rate	\$ 456,656,667	0.06	\$ 273,994	\$ 250,361	\$ 23,633
Discoveries					
Abatements	<u>(1,205,000)</u>	0.06	<u>(723)</u>	<u>(723)</u>	<u>-</u>
Total property valuation	\$ 455,451,667				
Net levy			\$ 273,271	\$ 249,638	\$ 23,633
Uncollected taxes at June 30, 2021			<u>(3,299)</u>	<u>(3,299)</u>	<u>-</u>
Current year's taxes collected			\$ 269,972	\$ 246,339	\$ 23,633
Current levy collection percentage			98.79%	98.68%	100.00%

SHEILA GAHAGAN, CPA

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INDEPENDENT AUDITOR'S 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
Junaluska Sanitary District
Lake Junaluska, NC 28745

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Junaluska Sanitary District, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Junaluska Sanitary District's basic financial statements, and have issued my report thereon dated October 27, 2021.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered Junaluska Sanitary District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Junaluska Sanitary District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Junaluska Sanitary 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 a 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.

My 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



Sheila Gahagan, CPA

October 27, 2021

SHEILA GAHAGAN, CPA

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Junaluska Sanitary District
Lake Junaluska, NC 28745

Report on Compliance for Each Major Federal Program

I have audited Junaluska Sanitary District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. Junaluska Sanitary District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

I believe my audit provides a reasonable basis for my qualified and unmodified opinions on compliance for major federal programs. However, my audit does not provide a legal determination of the District's compliance.

Basis for Qualified Opinion on Capitalization Grants for Drinking Water State Revolving Funds

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding CFDA 66.468 Capitalization Grants for Drinking Water State Revolving Funds as described in finding number 2021-1 for Special Tests and Provision. Compliance with this

requirement is necessary, in my opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on Capitalization Grants for Drinking Water State Revolving Funds

In my opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Capitalization Grants for Drinking Water State Revolving Funds for the year ended June 30, 2021.

The District's response to the noncompliance finding identified in my 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 compliance and, accordingly, I express no opinion on the response.

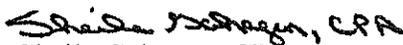
Report on Internal Control over Compliance

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

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

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I consider to be a material weakness. However, material weaknesses may exist that have not been identified.

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


Sheila Gahagan, CPA

October 27, 2021

**JUNALUSKA SANITARY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021**

I. Summary of Auditor's Results

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

Internal control over financial reporting:

Material weakness identified Yes No

Significant deficiencies identified that are not considered to be material weaknesses Yes No

Noncompliance material to financial statements noted Yes No

Federal Awards

Internal control over major federal programs:

Material weakness identified Yes No

Significant deficiency(s) identified Yes No

Type of auditor's report issued on compliance for major federal programs: Qualified

Any audit findings disclose that are required to be reported in accordance with 2 CFR 200.516(a) Yes No

Identification of major federal programs:

CFDA Number	Federal Program
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B program: \$750,000

Auditee qualified as low-risk auditee? Yes No

**JUNALUSKA SANITARY DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021**

II. Financial Statements Findings

None Reported

III. Federal Award Findings and Questioned Costs

2021-1 Noncompliance with Uniform Guidance Requirements for Basic Acquisition Policies

Criteria: Uniform Guidance (CFR.24.102) requires local governmental entities to follow specific negotiation practices when acquiring real property, including permanent easements. Real property acquisition practices under the Uniform Guidance includes establishing and making an offer of just compensation. Real property acquisition policies apply to all real property purchased as part of a federal project, even if the acquisition costs are not paid from a federal funding source.

Condition: The District obtained a permanent easement for the Water Infrastructure project without obtaining an appraisal or a waiver valuation, documenting the amount they believed to be just compensation, making an initial written purchase offer with a written statement of the basis for the offer of just compensation or making payment prior to obtaining the easement.

Effect: Junaluska Sanitary District is noncompliant with real property acquisition policies required by Uniform Guidance.

Cause: Although the documents for the Capitalization Grants for Drinking Water State Revolving Funds project included a Certification Regarding Uniform Relocation Assistance and Real Property Acquisition Policies (URLAP) Act of 1970 and was signed by the District's Attorney on the District's behalf, the District did not understand that the URLAP Act of 1970 were applicable to permanent easements.

Recommendation: Junaluska Sanitary District needs to ensure they understand all applicable sections of the Uniform Guidance related to capital projects. When a question regarding the Uniform Act or other compliance issues arise, management should contact the federal funding source or accounting or legal professionals with appropriate experience with federal programs for guidance.

Views of responsible officials and planned corrective actions: Junaluska Sanitary District agrees with this finding and will adhere to the correction action plan on page 43 in this audit report.



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**JUNALUSKA SANITARY DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2021**

I. Financial Statement Findings

None Reported

II. Federal Award Findings and Questioned Costs

Name of contact person: Josh Nickol, General Manager/Finance Officer

Corrective Action: Junaluska Sanitary District will ensure to fully understand and follow all applicable sections of the Uniform Guidance policy adopted by the board on December 10, 2020 as it relates to capital projects. When specific property easements occur that are not clearly understood or evident in the policy, we will contact state and federal fundings sources as well as accounting and legal professionals for further guidance.

Proposed Completion Date: The corrective action plan will be implemented immediately.

**JUNALUSKA SANITARY DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2021**

2020 – Insufficient Written Procurement Policies

Federal Agency: Environmental Protection Agency

Status: Corrected.

Last year the written procurement policies of Junaluska Sanitary District did not include all applicable sections required by Uniform Guidance. The Board updated and approved the District's procurement policies during the current year that incorporated applicable sections required by Uniform Guidance.

JUNALUSKA SANITARY DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

	Federal CFDA Number	Pass-through Entity Number	Federal Expenditures	Pass-Through to Sub- Recipients
<u>Environmental Protection Agency</u>				
Passed through NC Department of Environmental: Quality, Division of Water Infrastructure Clean Water State Revolving Fund - Cluster	66.458	E-SRF-C-17-0451	\$ 397,268	\$ -
Passed through NC Department of Environmental: Quality, Division of Water Infrastructure Drinking Water State Revolving Fund - Cluster	66.468	H-LRX-F-17-1918	2,297,963	
Total expenditures of federal and state awards			<u>\$ 2,695,231</u>	<u>\$ -</u>

Notes to the Schedule of Expenditures of State Financial Awards:

1 Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Junaluska Sanitary District under programs for the year ended June 30, 2020 in accordance with the requirements of *Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal awards (Uniform Guidance)* and the State Single Audit Act. Because the Schedule only presents a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Junaluska Sanitary District.

2 Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and State Single Audit Act, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The District did not use the de minimis cost rate.

3 Loan/Loan Guarantee Outstanding Balances

EPA Drinking Water (CFDA 66.468) and Clean Water (CFDA# 66.458) State Revolving Loans. The EPA has determined subrecipients receiving loans under these programs should only report project expenditures incurred during the current period because it considers these subawards, not direct federal loans. The loan reporting requirements of 2 CFR sections 200.502(b) or (d) do not apply when calculating the amount of federal funds expended.

4 Exception to Loan reporting for EPA Drinking and Clean Water State Funds

The EPA has stated in the Compliance Supplement, subrecipients receiving loans under the Drinking State Revolving Fund (CFDA 66.468) and Clean Water (CFDA/ 66.458) should report only project expenditures during the audit period because it considers these subawards, not direct federal loans.