

Black Mountain Utility District
Baxter, Kentucky

Independent Auditors' Report
And Financial Statements
For the Year Ended
December 31, 2020

Black Mountain Utility District
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Independent Auditors' Report

To the Commissioners
Black Mountain Utility District
Baxter, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Black Mountain Utility District (the District) as of and for the year ended December 31, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Black Mountain Utility District, as of December 31,

2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2022 on our consideration of Black Mountain Utility District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Black Mountain Utility District's internal control over financial reporting and compliance.

Abner & Cox, PSC

Abner & Cox, PLLC
London, Kentucky

May 26, 2022

Black Mountain Utility District
Statement of Net Position
December 31, 2020

Assets

Current Assets

Cash and cash equivalents	\$ 68,580
Receivable, less allowance for doubtful accounts of \$64,000 and \$64,000, respectively	276,106
Unbilled accounts receivable	83,000
Prepaid expenses	19,287
Total Current Assets	446,973

Noncurrent Assets

Restricted Assets

Customer deposits	35,062
Debt and interest funds	4,497
Total Restricted Assets	39,559

Capital Assets

Land and improvements	29,112
Buildings and improvements	254,288
Source of supply and pumping	1,460,855
Water treatment equipment	141,978
Transmission and distribution plant	18,598,070
Vehicles and other equipment	586,533
Sewer lines	130,311
Less: accumulated depreciation	(7,736,646)
Net Capital Assets	13,464,501

Total Noncurrent Assets

13,504,060

Total Assets

\$ 13,951,033

Black Mountain Utility District
Statement of Net Position (Continued)
December 31, 2020

Liabilities

Current Liabilities

Current portion of long-term debt	\$ 82,352
Note payable - line of credit	103,196
Accounts payable	400,591
Accrued interest payable	534
Accrued salaries and taxes payable	13,064
Customer deposits	83,709
Other current liabilities	<u>29,884</u>
Total Current Liabilities	<u>713,330</u>

Noncurrent Assets

Long-term debt, less current portion included in current liabilities	<u>1,093,220</u>
Total Noncurrent Liabilities	<u>1,093,220</u>

Total Liabilities	<u>1,806,550</u>
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Net Position

Net investment in capital assets	12,185,733
Restricted	39,559
Unrestricted	<u>(80,809)</u>
Total Net Position	<u>\$ 12,144,483</u>

Black Mountain Utility District
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2020

Operating Revenues	
Water sales	\$ 1,636,589
Other revenues	<u>278,697</u>
Total Operating Revenues	<u>1,915,286</u>
Operating Expenses	
Salaries and wages	327,922
Employee benefits	145,538
Purchased water	851,385
Utilities	126,591
Chemicals	6,223
Materials and supplies	51,521
Contracted services	28,782
Vehicle and equipment expenses	72,081
Insurance	20,309
Office expenses	61,901
Bad debt expense, net of recoveries	-
Depreciation	510,577
Other operating expenses	<u>65,616</u>
Total Operating Expenses	<u>2,268,446</u>
Operating Income	<u>(353,160)</u>
Non-operating Revenues (Expenses)	
Interest income	2
Grant income	100,000
Interest expense	<u>(53,670)</u>
Total Non-operating Revenues (Expenses)	<u>46,332</u>
Change in Net Position	(306,828)
Net Position, Beginning of Year	<u>12,451,311</u>
Net Position, End of Year	<u><u>\$ 12,144,483</u></u>

Black Mountain Utility District
Statement of Cash Flows
For the Year Ended December 31, 2020

Cash Flows From Operating Activities	
Receipts from customers	\$ 1,889,566
Payments to employees	(475,252)
Payments to suppliers	<u>(1,282,973)</u>
Net Cash Provided by Operating Activities	<u>131,341</u>
Cash Flows From Capital and Related Financing Activities	
Purchases of property, plant and equipment	(13,298)
Grant income	100,000
Principal payments on debt	(151,110)
Interest payments on debt	<u>(54,293)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(118,701)</u>
Cash Flows From Investing Activities	
Interest income	<u>2</u>
Net Cash Provided by Investing Activities	<u>2</u>
Net Increase in Cash and Cash Equivalents	12,642
Cash and Cash Equivalents at Beginning of Year	<u>95,497</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 108,139</u></u>
Reconciliation of cash per Statement of Net Position to cash per Statement of Cash Flows:	
Cash and cash equivalents	\$ 68,580
Customer deposits	35,062
Debt and interest funds	<u>4,497</u>
Cash and cash equivalents per Statement of Cash Flows	<u><u>\$ 108,139</u></u>

Black Mountain Utility District
Statement of Cash Flows (Continued)
For the Year Ended December 31, 2020

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities:

Operating income (loss)	\$ (353,160)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	510,946
(Increase) Decrease in operating assets	
Accounts receivable	(32,383)
Prepaid expenses	(2,261)
Increase (Decrease) in operating liabilities	
Accounts payable	14,497
Accrued salaries and taxes payable	(1,792)
Customer deposits	6,663
Other current liabilities	<u>(10,800)</u>
Net Cash Provided by Operating Activities	<u>\$ 131,710</u>

Black Mountain Utility District
Notes to Financial Statements
December 31, 2020

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

Black Mountain Utility District, of Harlan County, Kentucky (“District”) was created in 1983 under Chapter 74 of the Kentucky Revised Statutes. The District is governed by a five person board of Commissioners which is appointed by the Harlan County Fiscal Court. The District is regulated by the Kentucky Public Service Commission.

The District is a rural water utility system whose purpose is to establish, develop and operate a water supply and distribution system, including limited sewer services, for its members and customers in Harlan County, Kentucky. The District’s primary source of revenue is from water sales to its customers, including public bodies and local businesses in its service area.

Basis of Accounting, Financial Presentation and Measurement Focus

The basic financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The District applies all relevant Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case, GASB prevails. In addition, the District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position display information about the District as a whole. These statements include all funds of the District.

The financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported by the District includes revenues and expenses related to the continuing operation of water service for its customers. Principal operating revenues are charges to customers for services. Principal operating expenses are the costs of providing the services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Cash and Cash Equivalents

The District considers demand deposits and certificates of deposit with maturities of less than three months to be cash equivalents.

Black Mountain Utility District
Notes to Financial Statements (Continued)
December 31, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Receivables include amounts due from customers for water and sewer services. These receivables are due at the time the services are billed and are considered past due on the sixteenth day of the following month. Accounts receivable are presented net of uncollectible accounts. The allowance amount is estimated using a percentage of accounts past due more than 30 days. At December 31, 2020, the allowance for doubtful accounts was \$64,000.

Unbilled Accounts Receivable

Estimated unbilled revenues from water sales are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billing during the month following the close of the fiscal year.

Prepaid Expenses

Prepaid expenses include payments to vendors that benefit future reporting periods and are reported on the consumption basis.

Capital Assets

The District's property, plant and equipment with useful lives of more than one year are stated at historical cost. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives for depreciable assets are as follows:

Asset Classification	Range of Lives
Structures and improvements	10-40 years
Transmission distribution mains	25-50 years
Plant equipment	10-25 years
Meters and services	25 years
Other equipment and vehicles	5-10 years

Customer Deposits

The District collects and holds in escrow a \$75 deposit from customers to ensure collection of its water charges. Interest at an annual rate of 1.25% is paid on these deposits.

Net Position

The District has adopted accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Net position is comprised of the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Black Mountain Utility District
Notes to Financial Statements (Continued)
December 31, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

Net Position (Continued)

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted – This component of net position consists of restricted assets less liabilities and deferred inflows of resources related to those assets. Restricted assets are those with limits on their use that are externally imposed constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net amounts of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or the restricted component of net position.

Use of 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Restricted Assets

Under the terms of all loan resolutions, the District is required to maintain certain accounts and funds for the benefit and protection of the creditors. In addition, the District is also required to collect reasonable and sufficient rates and charges for services rendered, prohibited from selling, leasing or mortgaging any part of the system without prior approval, required to maintain the operating system in good condition and to carry adequate insurance on all properties to protect against loss or damage.

The resolutions require the District to establish a depreciation fund or reserve to be used to finance the cost of unusual repairs, renewals and replacements not included in the annual budget and to pay for future system extensions. The balance of these accounts at December 31, 2020 was \$4,497. Restricted assets at December 31, 2020 also included customer deposits of \$35,062.

Note 3 – Kentucky Revised Statute

At December 31, 2020, \$165,633 of the cash of the District was covered by federal depository insurance. In accordance with Kentucky Revised Statute (KRS) 91A.060, the deposits are to be insured by the Federal Depository Insurance Corporation or collateralized to the extent uninsured by any obligations permitted by KRS 41.240(4). According to KRS 41.240(4), financial institutions shall either pledge or provide as collateral securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. According to KRS 66.480, the District is allowed to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements, obligations of the Commonwealth of Kentucky and its agencies, interest bearing deposits of insured savings and loans, or interest bearing deposits of insured national or state banks. For additional cash descriptive information, see Note 1.

Black Mountain Utility District
Notes to Financial Statements (Continued)
December 31, 2020

Note 4 – Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2020, none of the District's total deposits at banks of \$165,633 were exposed to custodial credit risk.

Note 5 – Capital Assets

The following is a summary of capital asset transactions for the year ended December 31, 2020:

	Balance <u>Dec. 31, 2019</u>	<u>Additions</u>	<u>Dispositions</u>	Balance <u>Dec. 31, 2020</u>
Land and improvements	\$ 29,112	\$ -	\$ -	\$ 29,112
Building and improvements	254,288			254,288
Source of supply and pumping	1,460,855			1,460,855
Water treatment equipment	141,978			141,978
Transmission and distribution plant	18,598,070			18,598,070
Vehicles and other equipment	573,235	13,298		586,533
Sewer lines	130,311	-	-	130,311
Totals at historical cost	<u>21,187,849</u>	<u>13,298</u>	<u>-</u>	<u>21,201,147</u>
Less accumulated depreciation for:				
Building and improvements	115,298	7,632		122,930
Source of supply and pumping	658,043	70,326		728,369
Water treatment equipment	115,469	5,679		121,148
Transmission and distribution plant	5,831,351	378,876		6,210,227
Vehicles and other equipment	426,147	42,646		468,793
Sewer lines	79,761	5,787	-	85,548
Total accumulated depreciation	<u>7,226,069</u>	<u>510,946</u>	<u>-</u>	<u>7,737,015</u>
Capital assets - net	<u>\$ 13,961,780</u>	<u>\$ (497,648)</u>	<u>\$ -</u>	<u>\$ 13,464,132</u>

Depreciation expense for the year ended December 31, 2020 was \$510,946.

Note 6 – Line of Credit

The District has a line of credit with a local bank for \$107,624 maturing August 1, 2021, with interest payable monthly at 2.4% per annum. The line of credit is secured by a certificate of deposit. The outstanding balance at December 31, 2020 is \$103,196. The line of credit has been subsequently renewed with a maturity date of September 1, 2022, with interest payable monthly at 2.25%.

Black Mountain Utility District
Notes to Financial Statements (Continued)
December 31, 2020

Note 7 – Long-Term Debt

The following is a summary of long-term debt transactions for the year ended December 31, 2020:

	<u>Balance</u> <u>Dec. 31, 2019</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>Dec. 31, 2020</u>	<u>Due Within</u> <u>One Year</u>
Loan payable to Kentucky Infrastructure Authority, principal and interest, at the rate of 3%, payable on a semi-annual basis, with final payment due June 1, 2026	\$ 98,038	\$ -	\$ 13,876	\$ 84,162	\$ 14,295
Loan payable to Kentucky Infrastructure Authority, principal and interest, at the rate of 1%, payable on a semi-annual basis, with final payment due June 1, 2031	137,663	-	11,353	126,310	10,957
Various loans payable to United States Department of Agriculture, payable annually in varying principal amounts, with final payments due January 1, 2026 to January 1, 2038; interest payable on a semi-annual basis at the rate of 4.5% to 5%	<u>1,072,800</u>	<u>-</u>	<u>107,700</u>	<u>965,100</u>	<u>57,100</u>
	<u>\$ 1,308,501</u>	<u>\$ -</u>	<u>\$ 132,929</u>	<u>\$ 1,175,572</u>	<u>\$ 82,352</u>

Black Mountain Utility District
Notes to Financial Statements (Continued)
December 31, 2020

Note 7 – Long-Term Debt

The aggregate annual repayments on long-term debt are summarized as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 82,352	\$ 50,876	\$ 133,228
2022	85,994	47,730	133,724
2023	88,650	44,502	133,152
2024	93,421	37,750	131,171
2025	96,606	34,063	130,669
2026-2030	392,386	119,614	512,000
2031-2035	286,163	43,136	329,299
2036-2040	50,000	3,420	53,420
	<u>\$ 1,175,572</u>	<u>\$ 381,091</u>	<u>\$ 1,556,663</u>

Note 8 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage for the year and settlements have not exceeded coverage in the past three years.

Note 9 - Subsequent Events

Date of Management Evaluation

The COVID-19 pandemic has developed rapidly in 2020 and 2021, and measures taken by various governments to contain the virus have affected economic activity significantly. Management has taken various measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for employees, including social distancing and enabling employees to work from home. The District will continue to follow the various government policies and advice and will do its utmost to continue operations in the best and safest way possible. It is uncertain what effect, if any, future developments in the pandemic will have on the District's financial position.

Management of the District has evaluated subsequent events through May 26, 2022, the date on which the financial statements were available to be issued.

Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Commissioners
Black Mountain Utility District
Baxter, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Black Mountain Utility District as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Black Mountain Utility District's basic financial statements, and have issued our report thereon dated May 26, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Black Mountain Utility 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 our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Black Mountain Utility District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (See items 2020-1 and 2020-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Black Mountain Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2020-3.

Black Mountain Utility District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part on 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.

Abner & Cox, PSC

Abner & Cox, PSC
London, Kentucky

May 26, 2022

Black Mountain Utility District
Schedule of Findings and Responses
December 31, 2020

Findings – Financial Statements

2020-1

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The District's limited internal resources prevent the preparation of financial statements and related note disclosures in accordance with generally accepted accounting principles.

Effect:

The District was unable to prepare their financial statements and related note disclosures in accordance with generally accepted accounting principles.

Views of responsible officials and planned corrective actions:

The District feels that it would not be cost beneficial to hire the personnel required to complete these tasks.

2020-2

Criteria:

As discussed in *Standards for Internal Control in the Federal Government* published by the General Accounting Office of the United States, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, instances of this objective not being completely achieved were noted.

Cause:

The size of the District's office staff does not allow proper segregation of duties with regard to bank reconciliations, cash collections, billings, postings to the accounts receivable ledger, and expenditures for goods or services.

Effect:

This condition creates a weakness in internal controls which could result in unauthorized transactions being processed.

Views of responsible officials and planned corrective actions:

The District feels that it would not be cost beneficial to hire the personnel required to complete these tasks.

Black Mountain Utility District
Schedule of Findings and Responses
December 31, 2020

2020-3

Criteria:

The bonding agreements entered into with Rural Development for construction of water lines state that the District is to maintain a certain percentage of the operating income in a depreciation account for its upkeep and replacement. The District should implement procedures to ensure this objective is achieved.

Condition:

During the audit procedures performed, it was noted that the District is not maintaining the depreciation reserve funds as required by the bonding contracts.

Cause:

The lack of funds available to the District prevents the ability for reservation in a depreciation account.

Effect:

This condition causes the District to be in violation of its bonding agreements and could result in the bonds being called prematurely.

Views of responsible officials and planned corrective actions:

The District currently does not have funds available to maintain an adequate depreciation reserve account. The District will consider requesting a rate increase which will help fund the depreciation reserve account.