

SHARPSBURG WATER DISTRICT
Sharpsburg, Kentucky

**REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**
for the year ended December 31, 2020

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
<i>Financial Statements</i>	
Statement of Net Position	3
Statement of Revenues, Expenses and Changes in Net Position	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-11
<i>Supplementary Information</i>	
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	12-13
Comparative Statement of Revenues, Expenses and Changes in Net Position	14
Schedule of Findings & Responses	15

John T. Lane and Associates, LLC

Certified Public Accountants

219 Young Lane, Suite 2
Mount Sterling, Kentucky 40353
(859) 498-9915
www.TheLaneCPA.com

John T. Lane, CPA
Joel D. Lane, CPA

American Institute of CPAs
Kentucky Society of CPAs

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Sharpsburg Water District
Sharpsburg, Kentucky

We have audited the accompanying financial statements of the business-type activities of the Sharpsburg Water District as of and for the year ended December 31, 2020, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sharpsburg Water District's management. Our responsibility is to an express opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Sharpsburg Water District, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 and historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sharpsburg Water District's basic financial statements. The comparative statement of revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The comparative statement of revenues and expenses is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative statement of revenues and expenses and the 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 Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June xx, 2021, on our consideration of the Sharpsburg Water 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sharpsburg Water District's internal control over financial reporting and compliance.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

June xx, 2021

This report contains 15 pages.

SHARPSBURG WATER DISTRICT
Statement of Net Position
Proprietary Fund
December 31, 2020

ASSETS

Current Assets	
Cash and cash equivalents - unrestricted	\$ 280,200
Cash and cash equivalents - restricted (note 7)	224,170
Accounts receivable - net of allowance for doubtful accounts (note 1)	82,168
Prepaid insurance	<u>230</u>
Total Current Assets	<u>586,768</u>
Noncurrent Assets	
Capital assets: (note 1)	
Plant, equipment and lines	7,207,492
Less accumulated depreciation	<u>(2,931,525)</u>
Total Noncurrent Assets	<u>4,275,967</u>
Total Assets	<u><u>\$ 4,862,735</u></u>

LIABILITIES

Current Liabilities	
Accrued expenses	\$ 55,610
Bonds payable	48,300
Payable from restricted assets	<u>55,760</u>
Total Current Liabilities	<u>159,670</u>
Noncurrent Liabilities	
Bonds payable	<u>1,083,800</u>
Total Liabilities	<u>1,243,470</u>

NET POSITION

Net investment in capital assets	3,143,867
Restricted	168,410
Unrestricted	<u>306,988</u>
Total Net Position	<u><u>\$ 3,619,265</u></u>

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

SHARPSBURG WATER DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the year ended December 31, 2020

Revenues	
User fees	\$ 831,429
Utility tax income	24,345
Other income	<u>15,438</u>
Total Revenues	<u>871,212</u>
Expenses	
Water purchased	343,748
Salaries	205,762
Employee benefits	32,256
Office expense	33,724
Insurance	15,908
Taxes	40,773
Utilities	18,183
Miscellaneous	36,962
Contractual services	6,450
Depreciation	133,791
Supplies & repairs	<u>37,266</u>
Total Operating Expenses	<u>904,823</u>
Operating Income (Loss)	<u>(33,611)</u>
Nonoperating Revenues (Expenses)	
Tap fees	16,225
Interest expense	(39,747)
Interest income	<u>185</u>
Net Nonoperating Revenues (Expenses)	<u>(23,337)</u>
Change in Net Position	(56,948)
Total Net Position - beginning	<u>3,676,213</u>
Total Net Position - ending	<u><u>\$ 3,619,265</u></u>

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

SHARPSBURG WATER DISTRICT
Statement of Cash Flows
Proprietary Fund
For the year ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:	
Operating revenues	\$ 847,751
Cash paid to employees	(205,762)
Cash paid for general and administrative expenses	<u>(563,394)</u>
Net Cash provided / (used) by operating activities	<u>78,595</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	185
Interest paid	(39,747)
Customer deposits	<u>7,972</u>
Net Cash provided / (used) by investing activities	<u>(31,590)</u>
CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:	
Tap fees	16,225
Bond payments	<u>(45,900)</u>
Net cash provided / (used) in capital and financing activities	<u>(29,675)</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	17,330
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>487,040</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u><u>\$ 504,370</u></u>
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Change in Net Position	\$ (33,956)
Adjustments to Reconcile Change in Net Position to Net Cash Provided by Operating Activities:	
depreciation	133,791
(increase) / decrease in accounts receivable	(23,116)
increase / (decrease) in accounts payable	<u>1,876</u>
Net cash provided / (used) by operating activities	<u><u>\$ 78,595</u></u>

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

SHARPSBURG WATER DISTRICT
Notes to the Financial Statements
December 31, 2020

The Sharpsburg Water District is a water utility which services areas of Bath County including Sharpsburg, Bethel, Reynoldsville and parts of Nicholas County. Its sales are primarily to residential customers. The District is a corporate body set forth in Kentucky Revised Statutes (KRS) 74.070 which was created in November 1961. The District began operations in 1963. The District is subject to the regulatory authority of the Kentucky Public Service Commission pursuant to KRS 278.040.

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Sharpsburg Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service, and financing relations.

Based on the foregoing criteria there are no other organizations included in these financial statements.

Depreciation Reserve Fund - Monthly transfers are required to be made into this fund in the amount of \$120. Only expenditures for capital improvements or extraordinary expenses are permitted to be paid from this fund. The required balance of the fund on December 31, 2020 was \$67,755. The District had set aside \$88,325 into this fund on December 31, 2020.

Bond and Interest Sinking Fund - Monthly transfers are required to be made into this account in an amount equal to one-sixth (1/6) of the interest becoming due on the next succeeding interest due date for all outstanding bonds and one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding due date. The required balance of the fund on December 31, 2020 was \$0-. The District had set aside \$82,899.

Enterprise Funds

An enterprise fund distinguishes 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 the Authority's principal ongoing operations. The principal operating revenues of the Authority are operating grants and tenant rental revenue. Operating expenses of the Authority include the cost of producing the revenue 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.

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that 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 accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e., total assets net of total liabilities) are segmented into invested in capital assets, net of related debt, restricted and unrestricted components. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Basis of Accounting

The records of the District are maintained, and the budgetary process is based on the cash basis method of accounting. Adjustments have been made to conform to the accrual basis of accounting.

Inventory

The cost of inventory is recorded as a disbursement at the time of payment for the purchase.

Cash

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of one year or less to be cash equivalents. On December 31, 2020, the carrying amount of the District's deposits was \$504,370 and the bank balance was \$506,042. Of the bank balance 100% was covered by federal deposit insurance or collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Capital Assets

Capital assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Donated assets are recorded at fair market value at the date of donation.

Depreciation of property and equipment is computed by the straight-line method based upon the estimated useful lives of the assets as follows:

<u>Class</u>	<u>Life</u>
Lines and tanks	50 years
Equipment	5-10 years
Computers	3 years
Meters	15 years

The District's capitalization policy is as follows: expenditures costing more than \$1,000 with an estimated useful life greater than one year are capitalized: all others are expensed.

Net Position

Net position represents the difference between assets and liabilities. Invested in capital assets- net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction or improvement of those assets. Net position is recorded as restricted when there are limitations imposed on their use by external restrictions.

Accounts Receivable

The receivable reflected in the statements in the amount of \$82,168 is net of allowance for uncollectibles in the amount of \$8,580.

Use of Estimates

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

Note 2 - Notes Payable

The amount shown in the accompanying financial statements as notes payable represents the District's future obligation to make loan payments from future revenues. On December 31, 2020, five separate loans had outstanding balances. Details of each of these issues are summarized as follows:

Note A

Lender – Rural Development

Original loan amount - \$171,000

Balance of loan - \$46,000

Rate – 7.125%

Principal due January 1

Interest due January and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities

	Principal	Interest	Total Payment
2021	\$ 10,000	\$ 2,921	\$ 12,921
2022	11,000	2,173	13,173
2023	12,000	1,354	13,354
2024	13,000	463	13,463
Total	\$ 46,000	\$ 6,911	\$ 52,911

Note B

Lender – Rural Development

Original Loan Amount – 335,000

Balance of loan - \$152,000

Rate - 5%

Principal due January 1

Interest due January and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities

	Principal	Interest	Total Payment
2021	\$ 12,000	\$ 7,300	\$ 19,300
2022	13,000	6,675	19,675
2023	13,000	6,025	19,025
2024	14,000	5,350	19,350
2025	15,000	4,625	19,625
2026-2030	85,000	11,125	96,125
Total	\$ 152,000	\$ 41,100	\$ 193,100

Note C

Lender – Rural Development

Original loan amount - \$289,000

Balance of loan - \$172,100

Rate – 4.5%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities

	Principal	Interest	Total Payment
2021	\$ 8,300	\$ 7,558	\$ 15,858
2022	8,600	7,178	15,778
2023	9,000	6,782	15,782
2024	9,400	6,368	15,768
2025	9,900	5,933	15,833
2026-2030	56,400	22,433	78,833
2031-2035	70,500	8,242	78,742
Total	\$ 172,100	\$ 64,494	\$ 236,594

Note D

Lender – Rural Development

Original loan amount - \$258,000

Balance of loan - \$212,000

Rate – 4.125%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2021	\$ 5,000	\$ 8,642	\$ 13,642
2022	5,000	8,436	13,436
2023	5,000	8,229	13,229
2024	5,500	8,013	13,513
2025	5,500	7,786	13,286
2026-2030	32,500	35,134	67,634
2031-2035	40,500	27,648	68,148
2036-2040	50,000	18,356	68,356
2041-2045	63,000	6,744	69,744
Total	\$ 212,000	\$ 128,988	\$ 340,988

Note E

Lender – Rural Development

Original loan amount - \$642,000

Balance of loan - \$550,000

Rate – 2.250%

Principal due January 1

Interest due January 1 and July 1

Prepayment provision - subject to payment prior to its stated maturity without penalty or premium, at any time upon ten (10) days notice.

Maturities			
	Principal	Interest	Total Payment
2021	\$ 13,000	\$ 12,229	\$ 25,229
2022	13,000	11,936	24,936
2023	13,500	11,638	25,138
2024	13,500	11,334	24,834
2025	14,000	11,025	25,025
2026-2030	75,500	50,181	125,681
2031-2035	85,000	41,175	126,175
2036-2040	95,000	31,050	126,050
2041-2045	107,500	19,659	127,159
2046-2050	120,000	6,863	126,863
Total	\$ 550,000	\$ 207,090	\$ 757,090

The following is a summary of changes in long-term obligations for the year:

	Outstanding 1/1/2020	Issued	Retired	Outstanding 12/31/2020	Due Within One Year
Rural Development	\$ 1,178,000	\$ -	\$ 45,900	\$ 1,132,100	\$ 48,300

Total interest paid during the year on long-term debt totaled \$39,747.

Note 3 - Pension Plan

The District's employees are not covered by a retirement plan.

Note 4 - Leave Policies

Annual and Sick Leave

All full-time employees shall be entitled to sick leave with pay at a rate of twelve days per year. Maximum accumulation is 60 days. No pay upon termination.

All full-time employees are entitled to vacation time as follows:

- Completion of one year – 1 week
- Completion of ten years – 2 weeks
- Completion of 15 years – 3 weeks
- Completion of 20+ years – 4 weeks

Note 5 - Changes in Capital Assets

The following is a summary of changes in the capital assets for the year:

	Balance 1/1/2020	Transfers/ Additions	Deletions	Balance 12/31/2020
Utility plant and equipment	\$ 7,207,492	\$ -	\$ -	\$ 7,207,492
Accumulated depreciation	\$ 2,797,734	\$ 133,791	\$ -	\$ 2,931,525
Capital assets, net of accumulated depreciation	\$ 4,409,758			\$ 4,275,967

Note 6 - Revenue Bonds

Water and Revenue Bonds constitute special obligations of the District solely secured by a lien on and pledge of the net revenues of the water system. The revenue bonds are collateralized by the revenue of the water system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain certain provisions, which require the District to maintain pledged revenues. The District must transfer monthly 1/6 of the next succeeding interest payment and 1/12 of the next succeeding principal payment from the operations and maintenance account into the bond and interest sinking account.

Note 7 - Restricted Cash

Restricted cash is composed of the following:

Depreciation reserve fund	\$ 88,325
Sinking fund	82,899
Water Meter	52,946
	<u>\$ 224,170</u>

Note 8 – Contingencies

The District is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws, and regulations governing other grants given to the District in the current and prior years. There were no examinations for the year ended December 31, 2020. Areas of noncompliance, if any, as a result of examinations would be included as a part of the *Schedule of Findings* section of this report.

Note 9 – 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 insurance coverage for the risks to the extent deemed prudent by District management.

Note 10 – Subsequent Events

The District has evaluated subsequent events through June xx, 2021, and that is the date that the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

John T. Lane and Associates, LLC

Certified Public Accountants

219 Young Lane, Suite 2
Mount Sterling, Kentucky 40353
(859) 498-9915
www.TheLaneCPA.com

John T. Lane, CPA
Joel D. Lane, CPA

American Institute of CPAs
Kentucky Society of CPAs

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*

Board of Commissioners
Sharpsburg Water District
Sharpsburg, Kentucky

We 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 the business-type activities of the Sharpsburg Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Sharpsburg Water District's basic financial statements, and have issued our report thereon dated June xx, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Sharpsburg Water 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 the Sharpsburg Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Sharpsburg Water 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. [2020-001]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sharpsburg Water 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Sharpsburg Water District's Response to Findings

Sharpsburg Water District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Sharpsburg Water 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 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.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

June xx, 2021

SHARPSBURG WATER DISTRICT
Schedule of Findings and Responses
December 31, 2020

PRIOR YEAR FINDINGS

2019-001: Segregation of Duties – Repeated as 2020-001

CURRENT YEAR FINDINGS

2020-001: Lack of Segregation of Duties

Condition: The District has an inadequate segregation of duties within its internal control process.

Criteria: All governmental entities should design their internal control to provide an adequate segregation of duties.

Cause: The District does not have sufficient employees to adequately design its internal control.

Recommendation: The District should continue to design and implement its internal control policies to provide the maximum segregation of duties possible.

Effect or Potential Effect: Inadequate segregation of duties can cause transaction cycles to be susceptible to abuse and fraud.

Response: We will do as recommended.

SHARPSBURG WATER DISTRICT
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 For the years ended December 31, 2019 and December 31, 2020

	<u>2019</u>	<u>2020</u>
Revenues		
User fees	\$ 831,218	\$ 831,429
Utility tax	23,714	24,345
Miscellaneous	<u>16,649</u>	<u>15,438</u>
Total Revenues	<u>871,581</u>	<u>871,212</u>
Expenses		
Water purchased	336,277	343,748
Salaries	198,817	205,762
Employee benefits	37,363	32,256
Office expense	40,228	33,724
Insurance	21,763	15,908
Taxes	42,073	40,773
Utilities	18,624	18,183
Miscellaneous	32,594	36,962
Contractual services	6,450	6,450
Depreciation	133,814	133,791
Supplies & repairs	<u>35,173</u>	<u>37,266</u>
Total Operating Expenses	<u>903,176</u>	<u>904,823</u>
Operating Income (Loss)	<u>(31,595)</u>	<u>(33,611)</u>
Nonoperating Revenues (Expenses)		
Tap fees	17,850	16,225
Interest expense	(43,934)	(39,747)
Interest income	<u>180</u>	<u>185</u>
Net Nonoperating Revenues (Expenses)	<u>(25,904)</u>	<u>(23,337)</u>
Change in Net Position	<u><u>\$ (57,499)</u></u>	<u><u>\$ (56,948)</u></u>

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

Audit Report Draft Review

Auditing standards require management to review and approve a draft of the audit report prior to its final release. To comply with these standards, please review the draft of the audit report on the previous pages. When your review is complete, please electronically sign below.

If you have questions or concerns, please do not hesitate to ask before signing.

The xx's will be replaced with dates and numbers when the audit report is finalized.

Additional steps in the audit process cannot be completed until your review is complete, and you approve this draft by signing below.

The Board does not have to approve this draft. Only management is required to approve the draft.

I have reviewed and approve the audit report draft.

Auditee Name

Signature

Print Name

Title

Date

How many copies of the audit would you like? I will also e-mail you an electronic copy. If you want an electronic copy only, put zeroes for bound and stapled.

Bound _____

Stapled _____

The last 2 pages of this report are the letter to those charged with governance. You do not have to approve it.

John T. Lane and Associates, LLC

Certified Public Accountants

219 Young Lane, Suite 2
Mount Sterling, Kentucky 40353
(859) 498-9915
www.TheLaneCPA.com

John T. Lane, CPA
Joel D. Lane, CPA

American Institute of CPAs
Kentucky Society of CPAs

To the Manager and Board of Commissioners
Sharpsburg Water District
Sharpsburg, Kentucky

We have audited the financial statements of the Sharpsburg Water District for the year ended December 31, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated April 24, 2019. Professional standards also require that we communicate to you the following information related to our audit.

There is a finding in the Schedule of Findings and Responses.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Sharpsburg Water District are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the allowance for doubtful accounts is based on management's review of outstanding accounts and past experience. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June xx, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Entity’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Sharpsburg Water District and management of the Sharpsburg Water District and should not be used for any other purpose.

John T. Lane & Associates LLC

Mount Sterling, Kentucky

June xx, 2021