

**SOUTH WOODFORD COUNTY
WATER DISTRICT
Versailles, Kentucky**

**FINANCIAL STATEMENTS
December 31, 2020 and 2019**

CONTENTS

Independent Auditors' Report	1-2
Financial Statements	
Statements of Net Position	3
Statements of Revenues, Expenses and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	6-10
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 <i>Governmental Auditing Standards</i>	11-14



INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
South Woodford County Water District
Versailles, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the South Woodford County Water District as of and for the years ended December 31, 2020 and 2019, 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 audits. We conducted our audits 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 respective financial position of the South Woodford County Water District, as of December 31, 2020 and 2019, 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

Management has omitted the Management 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 April 12, 2021, on our consideration of the 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 District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
April 12, 2021

SOUTH WOODFORD COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
December 31,

ASSETS	2020	2019
Current assets		
Cash	\$ 51,411	\$ 79,698
Certificate of deposit	-	40,000
Accounts receivable		
Customers, net	72,048	68,501
Other	58	5,173
Accrued interest receivable	<u>-</u>	<u>30</u>
Total current assets	<u>123,517</u>	<u>193,402</u>
Restricted assets		
Cash	<u>167,538</u>	<u>187,494</u>
Fixed assets		
Land	30,699	30,699
Construction in progress	-	8,563
Property, plant and equipment	5,953,897	5,839,946
Less accumulated depreciation	<u>(3,071,246)</u>	<u>(2,970,900)</u>
Total fixed assets	<u>2,913,350</u>	<u>2,908,308</u>
TOTAL ASSETS	<u>\$ 3,204,405</u>	<u>\$ 3,289,204</u>
LIABILITIES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 59,677	\$ 65,945
Accrued liabilities	7,029	6,591
Accrued interest payable	15,088	16,428
Customer deposits	54,709	54,475
Current portion of bonds and notes payable	<u>49,100</u>	<u>70,200</u>
Total current liabilities	<u>185,603</u>	<u>213,639</u>
Long-term debt		
Bonds and notes payable	<u>667,900</u>	<u>717,000</u>
Net position		
Net investment in capital assets	2,196,350	2,121,108
Restricted	166,656	186,552
Unrestricted	<u>(12,104)</u>	<u>50,905</u>
Total net position	<u>2,350,902</u>	<u>2,358,565</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,204,405</u>	<u>\$ 3,289,204</u>

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

**SOUTH WOODFORD COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION
for the years ended December 31,**

	2020	2019
OPERATING INCOME		
Water sales	\$ 846,168	\$ 863,603
Penalties	3,102	12,834
Other income	<u>7,200</u>	<u>7,250</u>
Total operating income	<u>856,470</u>	<u>883,687</u>
OPERATING EXPENSES		
Water purchases	492,989	466,673
Customer billing/bookkeeping	54,000	54,000
Meter reading	30,004	29,866
Salaries	39,055	37,432
Rent	12,000	11,600
Utilities	32,896	30,824
Repairs	84,405	92,808
Commissioners' fees	10,800	10,532
Payroll taxes	3,814	3,690
Insurance and bonds	21,030	18,010
Office supplies	9,794	12,121
Professional fees	10,414	11,817
Computer expenses	2,610	2,810
Miscellaneous	6,906	11,149
Regulatory commission expenses	<u>1,767</u>	<u>1,637</u>
Total operating expenses	<u>812,484</u>	<u>794,969</u>
Operating income before depreciation	43,986	88,718
Depreciation expense	<u>(100,346)</u>	<u>(99,076)</u>
OPERATING (LOSS)	(56,360)	(10,358)
Non-operating income (expenses)		
Interest income	351	1,061
Interest expense	<u>(34,525)</u>	<u>(37,706)</u>
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(90,534)	(47,003)
Capital Contributions		
Other capital contributions	60,671	8,563
Tap fees	<u>22,200</u>	<u>7,900</u>
Change in net position	(7,663)	(30,540)
Net position, beginning of year	<u>2,358,565</u>	<u>2,389,105</u>
NET POSITION, END OF YEAR	<u>\$ 2,350,902</u>	<u>\$ 2,358,565</u>

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

SOUTH WOODFORD COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
for the years ended December 31,

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 858,272	\$ 881,462
Payments to suppliers	(725,002)	(684,022)
Payments for employee services and benefits	<u>(94,366)</u>	<u>(94,525)</u>
Net cash provided by operating activities	<u>38,904</u>	<u>102,915</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	82,871	12,110
Purchases of capital assets	(104,334)	(23,275)
Principal paid on bonds and notes payable	(70,200)	(77,800)
Interest paid on bonds and notes payable	<u>(35,865)</u>	<u>(39,200)</u>
Net cash (used) by capital and related financing activities	<u>(127,528)</u>	<u>(128,165)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	381	1,061
Certificate of deposit	<u>40,000</u>	<u>-</u>
Net cash provided by investing activities	<u>40,381</u>	<u>1,061</u>
NET (DECREASE) IN CASH	(48,243)	(24,189)
Cash and cash equivalents at beginning of year	<u>267,192</u>	<u>291,381</u>
CASH AT END OF YEAR	<u>\$ 218,949</u>	<u>\$ 267,192</u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (56,360)	\$ (10,358)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation expense	100,346	99,076
Change in assets and liabilities:		
Receivables, net	1,568	(4,700)
Prepaid expenses	-	-
Accounts and other payables	(7,322)	16,549
Accrued liabilities	438	(127)
Customer deposits	<u>234</u>	<u>2,475</u>
Net cash provided by operating activities	<u>\$ 38,904</u>	<u>\$ 102,915</u>
Net change in capital assets payable	<u>\$ 1,054</u>	<u>\$ 368</u>

The accompanying notes are an integral part of the financial statements

SOUTH WOODFORD COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

1. ORGANIZATION AND ACCOUNTING POLICIES

The South Woodford County Water District (the District) was created and organized as a public body incorporated in Woodford County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Woodford County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

The South Woodford County Water District's financial statements include the operations of all entities for which the District exercises oversight responsibilities. Oversight responsibility includes, but is not limited to, financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The only entity included in these financial statements are the general operations of the South Woodford County Water District.

The District's financial statements are presented in conformity with the GASB Codification. However, the District has not prepared the Management's Discussion and Analysis required by the GASB Codification.

The District maintains its accounting records on the cash basis during the year. Adjustments are made to the accrual basis from memorandum records at year end.

Fixed assets are recorded at cost or estimates of costs. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets. Land and land rights are not depreciated.

Reserve for accounts receivable represents accounts more than thirty days past due for active customers that are thought to be uncollectible. The reserve balances were \$2,992 and \$2,992 at December 31, 2020 and 2019. Noncurrent amounts for inactive customers are written off.

When both restricted and unrestricted resources are available for use, the District considers restricted funds to have been spent first.

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 period. Actual results could differ from those estimates.

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents.

Investments consist of certificates of deposit, with maturities greater than 90 days, and are valued at cost, which approximates fair value.

The District has evaluated and considered the need to recognize or disclose subsequent events through April 12, 2021, which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2020, have not been evaluated by the District.

**SOUTH WOODFORD COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

2. CASH AND INVESTMENTS

The South Woodford County Water District's deposits and investments at December 31, 2020 were entirely covered by Federal Depository Insurance.

Kentucky Revised Statutes authorize local governmental units to invest in, including but not limited to, obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

The District maintains several bank accounts and investment accounts in accordance with the Bond Resolution. The following schedule presents the detail by account:

	2020	2019
Revenue Fund		
Cash – checking	\$ 36,448	\$ 64,283
Operation and Maintenance Fund		
Cash – checking	1,488	1,914
Customer Credit		
Cash – savings	<u>13,475</u>	<u>13,501</u>
Total cash and cash equivalents - unrestricted	<u>\$ 51,411</u>	<u>\$ 79,698</u>
Certificate of deposit - unrestricted	<u>\$ -</u>	<u>\$ 40,000</u>
Bond and Interest Reserve Fund		
Cash – savings	\$ 42,130	\$ 40,363
Cash – checking	421	291
Cash – money market	12,949	34,449
Cash – KRW 2007	23,420	23,739
Cash - construction	882	942
Depreciation Reserve Fund		
Cash - savings	<u>87,736</u>	<u>87,710</u>
Total cash and cash equivalents - restricted	<u>\$ 167,538</u>	<u>\$ 187,494</u>

Statement of Cash Flows

The Statement of Cash Flows includes as cash and cash equivalents the following:

Cash and cash equivalents	\$ 51,411	\$ 79,698
Restricted cash and cash equivalents	<u>167,538</u>	<u>187,494</u>
	<u>\$ 218,949</u>	<u>\$ 267,192</u>

**SOUTH WOODFORD COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

3. FIXED ASSETS

Portions of the District's fixed assets have been recorded at estimated cost. The District assumed ownership of extension lines constructed during 1974 through 1977 that were financed by the customers. Cost records were unavailable; therefore the extensions have been recorded at \$117,500 which is the total funds borrowed to finance the construction.

	Balance 12/31/19	Additions	Deductions	Balance 12/31/20
Capital assets not depreciated:				
Land	\$ 30,699	\$ -	\$ -	\$ 30,699
Construction in Progress	<u>8,563</u>	<u>60,671</u>	<u>69,234</u>	<u>-</u>
Totals	<u>39,262</u>	<u>60,671</u>	<u>69,234</u>	<u>30,699</u>
Capital assets that are depreciated:				
Cost of System	<u>5,839,946</u>	<u>113,951</u>	<u>-</u>	<u>5,953,897</u>
Less: Accumulated Depreciation	<u>2,970,900</u>	<u>100,346</u>	<u>-</u>	<u>3,071,246</u>
Totals	<u>2,869,046</u>	<u>13,605</u>	<u>-</u>	<u>2,882,651</u>
Capital Assets, net	<u>\$ 2,908,308</u>	<u>\$ 74,276</u>	<u>\$ 69,234</u>	<u>\$ 2,913,350</u>

	Balance 12/31/18	Additions	Deductions	Balance 12/31/19
Capital assets not depreciated:				
Land	\$ 30,699	\$ -	\$ -	\$ 30,699
Construction in Progress	<u>-</u>	<u>8,563</u>	<u>-</u>	<u>8,563</u>
Totals	<u>30,699</u>	<u>8,563</u>	<u>-</u>	<u>39,262</u>
Capital assets that are depreciated:				
Cost of System	<u>5,824,866</u>	<u>15,080</u>	<u>-</u>	<u>5,839,946</u>
Less: Accumulated Depreciation	<u>2,871,824</u>	<u>99,076</u>	<u>-</u>	<u>2,970,900</u>
Totals	<u>2,953,042</u>	<u>(83,996)</u>	<u>-</u>	<u>2,869,046</u>
Capital Assets, net	<u>\$ 2,983,741</u>	<u>\$ (75,433)</u>	<u>\$ -</u>	<u>\$ 2,908,308</u>

4. LEASE OBLIGATIONS

The District entered into a lease agreement on April 2, 2013, to lease space on their water towers to Blue Zoom, Inc. for the purpose of mounting wireless internet transmission and receiving equipment. The initial term of the lease was three years and began May 1, 2013 and ended on April 30, 2016. The lease renewed for three years beginning May 1, 2016 and ended on April 30, 2019. The lease renewed for five years beginning May 1, 2019 and will end April 30, 2024. The lease is for \$200 per month for each tower leased.

**SOUTH WOODFORD COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019**

5. LONG TERM DEBT

The District issued \$328,000 of "Waterworks System Revenue Bonds" dated January 1, 1997. The bonds bear interest at the rate of 5.5% and interest is payable on January 1 and July 1 of each year. Bonds mature serially on January 1 of each year. The U.S. Department of Agriculture, Rural Development holds all the bonds.

The District issued \$118,000 "Waterworks System Revenue Bonds," Series 1996 Series A dated January 1, 1997. The bonds bear interest at the rate of 5.375% and interest is payable on January 1 and July 1 of each year. Bonds mature serially on January 1 of each year. The U.S. Department of Agriculture, Rural Development holds all the bonds.

The District issued \$346,000 "Waterworks System Revenue Bonds", Series 1999 Series A and B dated January 1, 1999. The bonds bear interest at the rate of 4.375% and interest is payable on January 1 and July 1 of each year. Bonds mature serially on January 1 of each year. The U.S. Department of Agriculture, Rural Development holds all the bonds.

On January 30, 2007, the District entered into an assistance agreement with the Kentucky Rural Water Finance Corporation for a \$490,000 loan to help finance their Phase IV construction project. The loan bears interest at a rate of 4.050% – 4.425%.

The following schedule presents the total debt service requirements over the remaining life of the direct placement debt:

Fiscal Year	Principal	Interest & Fees	Total
2021	\$ 49,100	\$ 32,995	\$ 82,095
2022	52,100	30,645	82,745
2023	54,400	28,138	82,538
2024	57,900	25,492	83,392
2025	60,900	22,659	83,559
2026-2030	230,400	73,834	304,234
2031-2035	129,900	30,565	160,465
2036-2040	<u>82,300</u>	<u>10,526</u>	<u>92,826</u>
	<u>\$ 717,000</u>	<u>\$ 254,854</u>	<u>\$ 971,854</u>

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

	Balance January 1, 2020	Issued	Principal Payments	Balance December 31, 2020
Series 1996-A	\$ 152,000	\$ -	\$ 15,000	\$ 137,000
Series 1996-B	41,700	-	6,000	35,700
Series 1999-A	217,000	-	6,000	211,000
Series 1999-B	38,500	-	1,200	37,300
Series 2001	23,000	-	23,000	-
Series 2007	<u>315,000</u>	<u>-</u>	<u>19,000</u>	<u>296,000</u>
	<u>\$ 787,200</u>	<u>\$ -</u>	<u>\$ 70,200</u>	<u>\$ 717,000</u>

SOUTH WOODFORD COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

6. COMPLIANCE WITH BOND RESOLUTION

The bond resolution requires the District to maintain certain reserves as follows:

Reserve Fund - This reserve is to receive a monthly transfer of \$890 until a balance of \$106,800 is accumulated. In addition, this reserve is to receive all proceeds collected from potential customers to aid construction of extensions and any property damage insurance proceeds. Funds may be used for the purpose of paying the cost of unusual or extraordinary maintenance and repairs not included in the budget and cost of constructing extensions or improvements to the system. Funds may also be used to pay down bond principal and interest, if needed. The balance of this reserve was \$87,736 at December 31, 2020, and \$87,710 at December 31, 2019. The District utilized the funds in 2015 to pay bond principal and interest payments in December. The District has not yet begun to replenish the reserve fund.

Bond and Interest Sinking Fund - This fund is to receive a monthly transfer of 1/6 of the next interest due and 1/12 of the next principal due. This reserve can only be used to pay debt service on the bond issue. The balance of this reserve was \$78,920 at December 31, 2020, and \$98,842 at December 31, 2019. The reserve requirement was met for both years.

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the District also carries commercial insurance for all other risks of loss such as worker's compensation and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. COVID-19 PANDEMIC

In 2020, various restrictions were placed on travel and business across the United States in response to the COVID-19 pandemic. The duration and pervasiveness of these restrictions are uncertain as of the date of these financial statements. The District is continuously evaluating the impact of COVID-19 and related responses on the operations and finances of the District. Restrictions placed on the District could negatively impact the District's revenue and expenses for an unknown period of time. At this time, a specific estimate of the impact could not reasonably be determined due to a number of unknown factors regarding the severity and duration of the event.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
South Woodford County Water District
Versailles, 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 South Woodford County Water 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, and have issued our report thereon dated April 12, 2021.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness (2020-001) and certain deficiencies in internal control that we consider to be significant deficiencies (2020-002 and 2020-003).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Woodford County 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. It was discovered during the 2015 audit that the District utilized the reserve cash account to make payments of principal and interest on their bonds. The District was required to make monthly transfers of \$890, beginning in 2016 to the reserve account until fully funded. The District has failed to begin the monthly transfers.

South Woodford County Water District's Responses to Findings

South Woodford County Water District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. South Woodford County Water District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

RFH

RFH, PLLC
Lexington, Kentucky
April 12, 2021

SOUTH WOODFORD COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2020

FINDING:
2020-001 (Recurring)

Criteria: The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Condition: Management was unable to prepare cash to accrual adjustments and draft financial statements, including the related notes to the financial statements.

Cause: The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to draft the financial statements in conformity with generally accepted accounting principles.

Effect: Management engaged the auditor to prepare cash to accrual adjustments and draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the adjustments and financial statements prior to their issuance.

Recommendation: We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements on the accrual basis of accounting, including preparing all cash to accrual adjustments.

Management's Response: Management has determined that it is more cost effective to continue to engage the auditor to adjust the books to the accrual basis and to draft the financial statements and related notes. Management has reviewed and accepts responsibility for the adjustments and financial statements.

2020-002

Criteria: The District should have internal controls in place that enable it to prepare and maintain complete accounting records in a timely and orderly manner.

Condition: Management was unable to provide complete accounting records for the year at the beginning of the audit.

Cause: The District could not locate the accounting records for a month of financial activity and thus, does not have the internal control procedures required to maintain complete and orderly accounting records.

Effect: The audit was delayed due to the District having misplaced a month of financial records.

Recommendation: We recommend management work to implement internal controls to ensure that its accounting records are not only prepared timely, but also maintained in an orderly fashion.

Management's Response: Management plans to begin maintaining the accounting records electronically, using Excel spreadsheets to record financial activity each month. A template will be used to ensure items are recorded consistently from month to month.

**SOUTH WOODFORD COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2020**

2020-003

Criteria: The District should have internal controls in place that enable it to effectively monitor cash flow and financial position so that operational issues harming the District financially can be identified and timely corrected.

Condition: Operating cash flow is declining, and the District's investments and reserves have been substantially depleted. Current cash provided by operations is insufficient to cover principal and interest on bonds and notes payable.

Cause: In the current year, the District's water loss percentage is approximately 37%. Water loss percentage has been around 30% for several years.

Effect: The District's water purchases have increased, while revenue has decreased, resulting in a decline in operational cash flows and the depletion of the District's investments and reserves.

Recommendation: We recommend that management assess the District's water loss and declining operating revenue and take steps to address the issue. If attention is not given to this issue and the District continues losing water, cash flow will be insufficient to timely pay the District's liabilities and service its debt.

Management's Response: Water loss is being monitored on a daily basis, and management plans to hire a specialist in locating leaks in order to address this issue.