

**U.S. 60 WATER DISTRICT
OF SHELBY AND FRANKLIN COUNTIES**

**BASIC FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORTS**

At December 31, 2013 and 2012

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
BASIC FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
U.S. 60 Water District of Shelby and Franklin Counties
Bagdad, Kentucky 40003

Report on the Financial Statements

We have audited the accompanying financial statements of U.S. 60 Water District of Shelby and Franklin Counties as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the U.S. 60 Water District of Shelby and Franklin Counties' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 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 financial position of the U.S. 60 Water District of Shelby and Franklin Counties, as of December 31, 2013 and 2012, 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.

Emphasis of Matter

As described in Note 16 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 March 27, 2014, on our consideration of the U.S. 60 Water District of Shelby and Franklin Counties' 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 U.S. 60 Water District of Shelby and Franklin Counties' internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

March 27, 2014

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF NET POSITION
December 31, 2013 and 2012

	2013	Restated 2012
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 1,665,958	\$ 1,589,951
Accounts Receivable (Net)	134,082	117,745
Interest Receivable	640	528
Prepaid Insurance	7,282	6,017
Total Current Assets	\$ 1,807,962	\$ 1,714,241
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 734,147	\$ 560,721
Interest Receivable	302	663
Capital Assets (Net)	5,845,628	6,057,634
Total Noncurrent Assets	\$ 6,580,077	\$ 6,619,018
Total Assets	\$ 8,388,039	\$ 8,333,259
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 62,165	\$ 72,118
Accounts Payable - Construction	1,547	-
Accrued Payroll Taxes/Employee Withholding	1,281	1,055
Utility Tax Payable	2,514	2,474
Sales Tax Payable	113	124
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable - Customer Deposits	118	1,075
Accrued Interest Payable - Long Term Debt	26,717	35,901
Revenue Bonds Payable	53,300	32,700
Notes Payable	17,500	35,000
Total Current Liabilities	\$ 165,255	\$ 180,447
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 1,545,900	\$ 1,584,100
Notes Payable	-	17,500
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	120,889	117,019
Total Noncurrent Liabilities	\$ 1,666,789	\$ 1,718,619
Total Liabilities	\$ 1,832,044	\$ 1,899,066
NET POSITION		
Net Investment in Capital Assets	\$ 4,228,928	\$ 4,388,334
Restricted for Capital Projects	89,789	8,290
Restricted for Debt Service	497,054	400,174
Unrestricted	1,740,224	1,637,395
Total Net Position	\$ 6,555,995	\$ 6,434,193

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2013 and 2012

	2013	Restated 2012
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 1,030,519	\$ 1,039,657
Total Charges for Services	\$ 1,030,519	\$ 1,039,657
Other Charges and Miscellaneous:		
Forfeited Discounts & Service Charges	\$ 37,071	\$ 33,768
Miscellaneous	1,656	7,500
Total Other Charges and Miscellaneous	\$ 38,727	\$ 41,268
Total Operating Revenues	\$ 1,069,246	\$ 1,080,925
Operating Expenses:		
Commissioner Fees	\$ 13,200	\$ 13,750
Contractual Service	170,536	161,121
Insurance	10,535	10,504
Maintenance of Mains	40,254	47,247
Miscellaneous	2,178	1,175
Office Supplies and Expense	19,690	21,052
Other Interest Expense	382	1,134
Payroll Taxes	1,349	1,373
Professional Services	28,143	22,819
Purchased Water	341,883	334,228
Purchased Power	29,983	27,224
Regulatory Fees	2,433	1,772
Rental of Building	24,000	24,000
Rental of Equipment	59,562	55,546
Depreciation Expense	230,570	236,231
Total Operating Expenses	\$ 974,698	\$ 959,176
Net Operating Income	\$ 94,548	\$ 121,749
Nonoperating Revenue (Expense):		
Investment Income	\$ 6,337	\$ 8,406
KIA Debt Reduction	12,837	-
Interest Expense	(69,912)	(89,880)
Bond Issuance Costs	(13,808)	-
Total Nonoperating Revenue (Expense)	\$ (64,546)	\$ (81,474)
Net Income Before Contributions	\$ 30,002	\$ 40,275
Capital Contributions	91,800	20,400
Net Income	\$ 121,802	\$ 60,675
Net Position--Beginning of Year	6,434,193	6,373,518
Net Position--End of Year	\$ 6,555,995	\$ 6,434,193

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,052,909	\$ 1,075,377
Payments to Suppliers	(739,746)	(723,492)
Payments to Employees	(15,600)	(15,875)
Other Receipts (Payments)	3,168	1,451
Net Cash Provided (Used) by Operating Activities	\$ 300,731	\$ 337,461
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grant Proceeds	\$ 81,500	\$ 10,000
Capital Contributions	10,300	10,400
Purchase of Capital Assets	(17,017)	(22,524)
Bond Proceeds	490,000	-
Proceeds - KIA Debt Reduction	12,837	-
Bond Issuance Costs	(13,808)	-
Principal Paid on Long Term Debt	(542,600)	(65,900)
Interest Paid on Long Term Debt	(79,096)	(90,771)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (57,884)	\$ (158,795)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash Withdrawn From [Invested in] Certificates of Deposit	\$ 284,092	\$ (7,461)
Interest Received	6,586	8,677
Net Cash Provided (Used) by Investing Activities	\$ 290,678	\$ 1,216
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 533,525	\$ 179,882
Balances-Beginning of the Year	1,157,810	977,928
Balances-End of the Year	\$ 1,691,335	\$ 1,157,810

	Balances Per December 31, 2013 Statement of Net Position	Balances Per December 31, 2013 Statement of Cash Flows
Cash	\$ 1,124,229	\$ 1,124,229
Time Deposits	541,729	-
Restricted Cash	567,106	567,106
Restricted Time Deposits	167,041	-
Total Cash and Cash Equivalents, End of Year	\$ 2,400,105	\$ 1,691,335

	Balances Per December 31, 2012 Statement of Net Position	Balances Per December 31, 2012 Statement of Cash Flows
Cash	\$ 904,689	\$ 904,689
Time Deposits	685,262	-
Restricted Cash	253,121	253,121
Restricted Time Deposits	307,600	-
Total Cash and Cash Equivalents, End of Year	\$ 2,150,672	\$ 1,157,810

(Continued)

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2013 and 2012

	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 94,548	\$ 121,749
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	230,570	236,231
Change in Assets and Liabilities:		
Receivables, Net	(16,337)	(5,548)
Prepaid Expenses	(1,265)	(1,121)
Accounts and Other Payables	(9,953)	(15,301)
Accrued Expenses	(702)	165
Customer Meter Deposits Payable	3,870	1,286
Net Cash Provided by Operating Activities	\$ 300,731	\$ 337,461

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2013, U.S. 60 Water District of Shelby and Franklin Counties had \$1,547 of capitalized expenditures for the construction/acquisition of plant assets included in accounts payable on the Statement of Net Position.

At December 31, 2012, U.S. 60 Water District of Shelby and Franklin Counties had no capitalized expenditures for the construction/acquisition of plant assets included in accounts payable on the Statement of Net Position.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The U.S. 60 Water District of Shelby and Franklin Counties is a rural Water District serving customers in Anderson, Franklin, Shelby and Spencer Counties, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The Water District was formed under the laws of the above-mentioned counties through their Fiscal Courts and began operations in June, 1960.

In evaluating how to define U.S. 60 Water District of Shelby and Franklin Counties for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

Basis of Presentation and Accounting: As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets plus deferred outflows net of total liabilities and deferred inflows) are segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and Expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. The District adheres to the use restrictions established by debt agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs of major improvements, renewals and replacements is capitalized as a cost of the project. Costs associated with hook-up fees are capitalized as meters, installations, and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- | | |
|-------------------------|-------------|
| - Distribution System | 15-50 years |
| - Machinery & Equipment | 5-50 years |

Bond and Note Payable Issuance Costs: Such costs are expensed as incurred, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 65 “*Items Previously Reported as Assets and Liabilities*”.

Deferred Outflows and Deferred Inflows

The District adopted GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* “GASB 65”. GASB 65 established accounting and reporting standards that reclassified certain items that were previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and that recognized certain items previously reported as assets and liabilities as outflows and inflows of resources. In addition, it limits the use of the term “deferred” in the financial statement presentation. The implementation of GASB 65 required the District to retroactively recognize costs of issuance as outflows of resources and restate its fiscal 2012 financial statements by eliminating any carrying amounts of bond issuance costs and related amortization thereof.

The effect of the restatement is discussed in Note 16.

Income Taxes: The U.S. 60 Water District of Shelby and Franklin Counties is not subject to income taxes.

Contributed Capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses, and changes in fund net position. Grant funds of \$81,500 and \$10,000 were received by the District for the years ended December 31, 2013 and 2012, respectively. Tap-on fees of \$10,300 and \$10,400 were received by the District for the years ended December 31, 2013 and 2012, respectively.

Net Position: In 2012, the District adopted Statement of Governmental Standards (GASB Statement) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, which requires the District to report net position and changes the title of the Statement of Net Assets to the Statement of Net Position (effective for periods beginning after December 15, 2011). Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

Estimates: The preparation of financial statements 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.

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, U.S. 60 Water District of Shelby and Franklin Counties considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2013 and 2012

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

A Bond and Interest Sinking Account was established with the original RECD bond issue, and is to be maintained as long as any of the 1992, 1998, 2008A, 2008B, or 2013B issues are outstanding. A minimum balance is to be maintained in this account as security to the bondholders. In order to attain the minimum balance, a monthly transfer must be made as follows:

- + one sixth (1/6) of the next semiannual interest payment
- + one twelfth (1/12) of the next annual principal payment
- = monthly transfer

Transfers sufficient to meet the total obligation were made timely during the years ended December 31, 2013 and 2012.

Under the 1992, 1998, 2008A, and 2008B bond resolutions, a Depreciation Account is to be maintained as long as any of the bonds are outstanding to provide funds for extraordinary repairs and extensions to the system, and to make up any deficiency in the Bond and Interest Sinking Fund Account. The required minimum monthly transfers and balances are as follows:

	Monthly Requirements	Minimum Accumulated Balance
1992 Bond Issue	\$185/month	\$ 22,200
1998 Bond Issue	\$215/month	25,800
2008A & B Bond Issues	\$377/month	44,400
	Total	<u>\$ 92,400</u>

When the required balance of \$92,400 is attained, the monthly transfers may be discontinued, but are subject to resumption if the depreciation account is depleted below the required balance. While the depreciation account was fully funded for the years ended December 31, 2013 and 2012, monthly transfers continue to be made.

NOTE 3 – CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

U.S. 60 Water District's policies regarding deposits of cash are discussed above. The table presented below is designed to disclose the level of custody credit risk assumed by the District based upon how its deposits were insured or secured with collateral at December 31, 2013 and 2012. The categories of credit risk are defined as follows:

- Category 1 – Insured by FDIC Insurance or collateralized with a depository surety bond or securities held by the District (public trust) or by its agent in its name.
- Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized with no written or approved collateral agreement.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2013 and 2012

NOTE 3 – CASH AND INVESTMENTS (Continued)

December 31, 2013

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Demand Deposits	\$ 1,712,139	\$ 605,189	\$ 1,106,950	\$ -	\$ 1,691,335
Certificates of Deposit	708,770	417,041	291,729	-	708,770
Total Deposits	\$ 2,420,909	\$ 1,022,230	\$ 1,398,679	\$ -	\$ 2,400,105

December 31, 2012

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Demand Deposits	\$ 1,158,518	\$ 307,727	\$ 850,791	\$ -	\$ 1,157,810
Certificates of Deposit	992,862	562,395	430,467	-	992,862
Total Deposits	\$ 2,151,380	\$ 870,122	\$ 1,281,258	\$ -	\$ 2,150,672

Reconciliation to Statement of Net Position:

	December 31, 2013	December 31, 2012
Unrestricted Cash, Including Time Deposits	\$ 1,665,958	\$ 1,589,951
Restricted Cash, Including Time Deposits	734,147	560,721
	\$ 2,400,105	\$ 2,150,672

NOTE 4 – RESTRICTED ASSETS

Restricted cash and time deposits consist of the following:

	December 31, 2013	December 31, 2012
Bond and Interest Sinking Accounts	\$ 272,230	\$ 192,037
Depreciation Accounts	251,239	243,375
Customer Deposits	120,889	117,019
Construction Accounts	89,789	8,290
Total	\$ 734,147	\$ 560,721

Restricted receivables consist of the following:

	December 31, 2013	December 31, 2012
Interest Receivable	\$ 302	\$ 663

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$6,983 and \$7,753 at December 31, 2013 and 2012, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

Estimated unbilled water service of \$52,430 and \$39,419 is included in accounts receivable at December 31, 2013 and 2012, respectively.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2013 and 2012, was as follows:

	<u>January 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>December 31, 2013</u>
Structures & Improvements	\$ 24,234	\$ -	\$ -	\$ 24,234
Distribution System	9,083,274	10,300	-	9,093,574
Machinery & Equipment	306,959	-	-	306,959
Construction in Process	-	8,264	-	8,264
Totals at Historical Cost	<u>\$ 9,414,467</u>	<u>\$ 18,564</u>	<u>\$ -</u>	<u>\$ 9,433,031</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (22,351)	\$ (254)	\$ -	\$ (22,605)
Distribution System	(3,188,916)	(221,236)	-	(3,410,152)
Machinery & Equipment	(145,566)	(9,080)	-	(154,646)
Total Accumulated Depreciation	<u>\$ (3,356,833)</u>	<u>\$ (230,570)</u>	<u>\$ -</u>	<u>\$ (3,587,403)</u>
Capital Assets, Net	<u>\$ 6,057,634</u>	<u>\$ (212,006)</u>	<u>\$ -</u>	<u>\$ 5,845,628</u>
	<u>Balance at</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u>
	<u>January 1, 2012</u>			<u>December 31, 2012</u>
Structures & Improvements	\$ 24,234	\$ -	\$ -	\$ 24,234
Distribution System	9,103,285	10,400	(30,411)	9,083,274
Machinery & Equipment	306,959	-	-	306,959
Totals at Historical Cost	<u>\$ 9,434,478</u>	<u>\$ 10,400</u>	<u>\$ (30,411)</u>	<u>\$ 9,414,467</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (22,097)	\$ (254)	\$ -	\$ (22,351)
Distribution System	(2,962,019)	(226,897)	-	(3,188,916)
Machinery & Equipment	(136,486)	(9,080)	-	(145,566)
Total Accumulated Depreciation	<u>\$ (3,120,602)</u>	<u>\$ (236,231)</u>	<u>\$ -</u>	<u>\$ (3,356,833)</u>
Capital Assets, Net	<u>\$ 6,313,876</u>	<u>\$ (225,831)</u>	<u>\$ (30,411)</u>	<u>\$ 6,057,634</u>

Included under the District's capital assets were \$570,495 and \$531,302 of fully depreciated assets at December 31, 2013 and 2012, respectively. Construction in process is not depreciated.

Depreciation expense for 2013 and 2012 was \$230,570 and \$236,231, respectively.

NOTE 7 – CUSTOMER DEPOSITS

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full). Records are maintained which detail the accrued interest on each customer's deposit based on the current annual rate. Accrued interest is paid when the deposit is refunded or credited to the customer's account annually. At December 31, 2013 and 2012, accrued interest on customer deposits was \$118 and \$1,075 respectively. The District has not maintained a separate bank account specifically for cash collected and disbursed relating to customer deposits.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2013 and 2012

NOTE 8 – LONG-TERM DEBT

As of December 31, 2013 and 2012, long-term debt payable consisted of the following:

Bonds Payable:

	December 31, 2013	December 31, 2012
1986 Revenue Bonds, original issue amount of \$350,000, secured by water revenues. Interest is charged at the rate of 7.625% per annum. Final maturity is February, 2025.	\$ -	\$ 257,000
1992 Revenue Bonds, original issue amount of \$294,000, secured by water revenues. Interest is charged at the rate of 6.125% per annum. Final maturity is February, 2032.	-	233,800
1998 Revenue Bonds, original issue amount of \$460,700, secured by water revenues. Interest is charged at the rate of 4.5% per annum. Final maturity is February, 2038.	378,600	386,700
2008A Revenue Bonds, original issue amount of \$145,000, secured by water revenues. Interest is charged at the rate of 4.5% per annum. Final maturity is February, 2047.	138,600	140,300
2008B Revenue Bonds, original issue amount of \$619,000, secured by water revenues. Interest is charged at the rate 4.625% per annum. Final maturity is February, 2047.	592,000	599,000
Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds (Flexible Term Program) Series 2013B, original issue (District Share) \$490,000, secured by water revenues. Interest is charged at the rates of 2.30% - 3.55% per annum. Final maturity is February 1, 2032.	490,000	-
Total Bonds Payable	\$ 1,599,200	\$ 1,616,800
Current Portion	\$ 53,300	\$ 32,700
Noncurrent Portion	1,545,900	1,584,100
Total Bonds Payable	\$ 1,599,200	\$ 1,616,800

Bonds Payable Kentucky Rural Water Finance Corporation Flexible Term Finance Program Series 2013B

On February 27, 2013, U.S. 60 Water District of Shelby and Franklin Counties issued \$490,000, Series 2013B Kentucky Rural Water Finance Corporation Public Projects Refunding Revenue Bonds with interest rates of 2.30% - 3.55% to advance refund \$247,000 Series 1986 and \$227,900 Series 1992 revenue bonds outstanding. The 1986 Series was originally issued at 7.625%. The 1992 Series was issued at 6.125%. The refunded bonds were redeemed on February 27, 2013 at a price equal to 100% of the principal amounts of the refunded bonds outstanding at that date. Bond issuance costs were \$13,808.

As a result of the advance refunding, the District reduced its total debt service requirements by \$166,686, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$122,451. Final maturity on the 2013 issue is February 1, 2032.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2013 and 2012

NOTE 8 – LONG-TERM DEBT (Continued)

The annual requirements for all bonds payable outstanding at December 31, 2013 are as follows:

	Principal	Interest	Total
2014	\$ 53,300	\$ 62,918	\$ 116,218
2015	48,800	61,325	110,125
2016	49,300	59,767	109,067
2017	50,800	58,165	108,965
2018	56,200	56,462	112,662
2019-2023	301,100	253,702	554,802
2024-2028	262,200	199,204	461,404
2029-2033	230,900	150,434	381,334
2034-2038	236,900	99,153	336,053
2039-2043	156,500	53,965	210,465
2044-2047	153,200	14,528	167,728
	<u>\$ 1,599,200</u>	<u>\$ 1,069,623</u>	<u>\$ 2,668,823</u>

The annual requirements for all bonds payable outstanding at December 31, 2012 are as follows:

	Principal	Interest	Total
2013	\$ 32,700	\$ 84,391	\$ 117,091
2014	36,600	82,380	118,980
2015	38,500	80,183	118,683
2016	41,400	77,826	119,226
2017	44,500	75,278	119,778
2018-2022	264,500	332,201	596,701
2023-2027	299,300	241,861	541,161
2028-2032	271,000	170,404	441,404
2033-2037	226,700	109,708	336,408
2038-2042	174,000	61,557	235,557
2043-2047	187,600	22,368	209,968
	<u>\$ 1,616,800</u>	<u>\$ 1,338,157</u>	<u>\$ 2,954,957</u>

Notes Payable:

1993 Kentucky Infrastructure note, original loan amount \$556,481, secured by water revenues. Interest is charged from 2.25% to 5.29% per annum. Final maturity is June, 2014.

	December 31, 2013	December 31, 2012
	\$ 17,500	\$ 52,500
Total Notes Payable	<u>\$ 17,500</u>	<u>\$ 52,500</u>
	December 31, 2013	December 31, 2012
Current Portion	\$ 17,500	\$ 35,000
Noncurrent Portion	-	17,500
Total Notes Payable	<u>\$ 17,500</u>	<u>\$ 52,500</u>

The annual requirements for all notes payable outstanding at December 31, 2013 are as follows:

	Principal	Interest	Service Fees	Total
2014	\$ 17,500	\$ 926	\$ 35	\$ 18,461
	<u>\$ 17,500</u>	<u>\$ 926</u>	<u>\$ 35</u>	<u>\$ 18,461</u>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 8 – LONG-TERM DEBT (Continued)

The annual requirements for all notes payable outstanding at December 31, 2012 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Total</u>
2013	\$ 35,000	\$ 2,760	\$ 105	\$ 37,865
2014	17,500	926	35	18,461
	<u>\$ 52,500</u>	<u>\$ 3,686</u>	<u>\$ 140</u>	<u>\$ 56,326</u>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2013.

	<u>Balance at January 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2013</u>	<u>Current Portion</u>
Revenue Bonds Payable	\$ 1,616,800	\$ 490,000	\$ 507,600	\$ 1,599,200	\$ 53,300
Notes Payable	52,500	-	35,000	17,500	17,500
Total Long-Term Debt	<u>\$ 1,669,300</u>	<u>\$ 490,000</u>	<u>\$ 542,600</u>	<u>\$ 1,616,700</u>	<u>\$ 70,800</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2012.

	<u>Balance at January 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2012</u>	<u>Current Portion</u>
Revenue Bonds Payable	\$ 1,647,700	\$ -	\$ 30,900	\$ 1,616,800	\$ 32,700
Notes Payable	87,500	-	35,000	52,500	35,000
Total Long-Term Debt	<u>\$ 1,735,200</u>	<u>\$ -</u>	<u>\$ 65,900</u>	<u>\$ 1,669,300</u>	<u>\$ 67,700</u>

The annual requirements for all long-term debt outstanding at December 31, 2013 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Total</u>
2014	\$ 70,800	\$ 63,844	\$ 35	\$ 134,679
2015	48,800	61,325	-	110,125
2016	49,300	59,767	-	109,067
2017	50,800	58,165	-	108,965
2018	56,200	56,462	-	112,662
2019-2023	301,100	253,702	-	554,802
2024-2028	262,200	199,204	-	461,404
2029-2033	230,900	150,434	-	381,334
2034-2038	236,900	99,153	-	336,053
2039-2043	156,500	53,965	-	210,465
2044-2047	153,200	14,528	-	167,728
	<u>\$ 1,616,700</u>	<u>\$ 1,070,549</u>	<u>\$ 35</u>	<u>\$ 2,687,284</u>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 8 – LONG-TERM DEBT (Continued)

The annual requirements for all long-term debt outstanding, excluding interim financing, at December 31, 2012 is as follows:

	Principal	Interest	Service Fees	Total
2013	\$ 67,700	\$ 87,151	\$ 105	\$ 154,956
2014	54,100	83,306	35	137,441
2015	38,500	80,183	-	118,683
2016	41,400	77,826	-	119,226
2017	44,500	75,278	-	119,778
2018-2022	264,500	332,201	-	596,701
2023-2027	299,300	241,861	-	541,161
2028-2032	271,000	170,404	-	441,404
2033-2037	226,700	109,708	-	336,408
2038-2042	174,000	61,557	-	235,557
2043-2047	187,600	22,368	-	209,968
	<u>\$ 1,669,300</u>	<u>\$ 1,341,843</u>	<u>\$ 140</u>	<u>\$ 3,011,283</u>

NOTE 9 – INTEREST EXPENSE

Interest expense incurred for the year ended December 31, 2013 and 2012 was \$70,294 and \$91,014, respectively. No interest was capitalized in 2013 or 2012.

NOTE 10 – FUND EQUITY – RESTRICTED NET POSITION

	December 31, 2013	December 31, 2012
Restricted for Capital Projects:		
Monies Restricted for Construction	\$ 89,789	\$ 8,290
Total Restricted for Capital Projects	<u>\$ 89,789</u>	<u>\$ 8,290</u>
Restricted for Debt Service:		
Revenue Bonds of 1992, 1998, 2008A, 2008B, & 2013B		
Cash	\$ 523,469	\$ 435,412
Add: Accrued Interest Receivable	302	663
Less: Accrued Interest Payable	(26,717)	(35,901)
Total Restricted for Debt Service	<u>\$ 497,054</u>	<u>\$ 400,174</u>

NOTE 11 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$1,532 and \$1,892 at December 31, 2013 and 2012, respectively.

NOTE 12 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. and is also subject to the risks associated with employee injury. Each of these risks is covered through the purchase of commercial insurance.

NOTE 13 – ECONOMIC DEPENDENCY

The District purchased 100.00% of the water it sold from Frankfort Electric and Water Plant Board for the years ended December 31, 2013 and 2012.

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2013 and 2012**

NOTE 14 – OPERATION AND MAINTENANCE CONTRACT

North Shelby Water Company furnishes managerial, meter reading, maintenance, meter installation, accounts receivable processing, and general office services to U.S. 60 Water District. The District paid \$271,198 and \$266,731 for the years ended December 31, 2013 and 2012, respectively. In 2013, there was an overpayment to North Shelby Water Company in the amount of \$583. There was a payable due to North Shelby Water Company in the amount of \$10,990 at December 31, 2012.

NOTE 15 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

U.S. 60 Water District is currently pursuing a conversion of meters to radio-read meters along with construction of a new water tank. Preliminary estimated costs associated with these projects are \$1,700,000. The District has entered into a conditional commitment to procure an Infrastructure Revolving Fund Loan in the amount of \$1,300,000 from Kentucky Infrastructure Authority. The District expects to expend \$400,000 of its own funds for the project.

NOTE 16 – FINANCIAL STATEMENT RESTATEMENT

The District adopted Statement of Governmental Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, which amends the financial statement classification of certain items to now be included as deferred inflows and outflows categories on the Statement of Net Position. Under GASBS No. 65, debt issuance costs are no longer to be reported in the Statement of Net Position because the GASB has determined that they do not meet the definition of assets, liabilities, deferred outflows of resources, or deferred inflows of resources. Retroactive application by restating financial statements for all periods presented is required. The effect of the reinstatement is as follows for the year ended December 31, 2012:

Statement of Net Position:

Total Net Position as Originally Presented	\$	6,439,663
Less Net Unamortized Bond Issuance Costs		(5,470)
 Total Net Position as Restated	 \$	 <u><u>6,434,193</u></u>

The components of Net Position at December 31, 2012 after restatement are as follows:

Net Investment in Capital Assets	\$	4,388,334
Restricted for Capital Projects		8,290
Restricted for Debt Service		400,174
Unrestricted		1,637,395
 Total Net Position	 \$	 <u><u>6,434,193</u></u>

Statement of Revenues, Expenses, and Changes in Fund Net Position:

Change in Net Position as Originally Reported	\$	55,767
Add Back:		
Amortization Expense of Bond Issuance Costs		4,908
 Change in Net Position as Restated		 60,675
 Net Position, January 1, 2012 (as Restated)		 6,373,518
 Net Position, December 31, 2012 (as Restated)	 \$	 <u><u>6,434,193</u></u>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 16 – FINANCIAL STATEMENT RESTATEMENT (Continued)

The effect of the restatement on the Net Position at December 31, 2011 is as follows:

Net Position as Originally Reported	\$ 6,383,896
Less: Net Unamortized Bond Issuance Costs	<u>(10,378)</u>
Net Position as Restated, December 31, 2011	<u><u>\$ 6,373,518</u></u>

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

To the Commissioners of the
U.S. 60 Water District of Shelby and Franklin Counties
Bagdad, KY 40003

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 U.S. 60 Water District of Shelby and Franklin Counties as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise U.S. 60 Water District of Shelby and Franklin Counties' basic financial statements, and have issued our report thereon dated March 27, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered U.S. 60 Water District of Shelby and Franklin Counties' 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 U.S. 60 Water District of Shelby and Franklin Counties' internal control. Accordingly, we do not express an opinion on the effectiveness of U.S. 60 Water District of Shelby and Franklin Counties' 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 and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Items 2013-001 and 2013-002).

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency (Item 2013-003).

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether U.S. 60 Water District of Shelby and Franklin Counties' 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*.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES' RESPONSE TO FINDINGS

U.S. 60 Water District of Shelby and Franklin Counties' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. U.S. 60 Water District of Shelby and Franklin Counties' 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.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP, & WOODS P.S.C
Certified Public Accountants
Carrollton, Kentucky

March 27, 2014

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2013**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of U.S. 60 Water District of Shelby and Franklin Counties.
2. Three deficiencies in internal control related to the audit of the financial statements are reported in the 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*. Items 2013-001 and 2013-002 were reported as material weaknesses. Item 2013-003 was reported as a significant deficiency.
3. No instances of noncompliance material to the financial statements of U.S. 60 Water District of Shelby and Franklin Counties, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

2013-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions. This limits internal control. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2012 as Item 12-1.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and allow timely preparation of financial data consistent with management assertions.

CAUSE:

Responsibilities associated with individual positions limit the availability of individuals to rotate duties and implement checking procedures.

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data. During the current year a pass through rate increase was not updated in the computer timely resulting in underbilled amounts.

RECOMMENDATION:

Management should strive to provide cross-training for administrative staff and implement checking processes.

RESPONSE:

We concur with the recommendation. Management believes adequate resources have been expended and control procedures implemented, that are commensurate with the staff size and responsibility of financial personnel.

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2013**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

2013-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2012 as Item 12-2.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CAUSE:

The draft accrual basis financial statements and disclosures are prepared during the audit process. Recommended adjusting entries are approved and entered into the District's general ledger/financial reports.

EFFECT:

Management engaged the auditor to prepare the draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

RECOMMENDATION:

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

RESPONSE:

The outsourcing of this service is a result of management's cost benefit decision to use others' accounting expertise rather than incur internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities.

2013-003 RECONCILIATION OF CUSTOMER DEPOSITS

CONDITION:

The general ledger customer deposits payable account was not reconciled to the customer deposit subsidiary ledger at year-end.

CRITERIA:

Significant accounts in the general ledger should be reconciled to subsidiary ledgers in a timely manner.

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2013**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

GOVERNMENT AUDITING STANDARDS (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

2013-003 RECONCILIATION OF CUSTOMER DEPOSITS (Continued)

CAUSE:

A proper reconciliation was not performed.

EFFECT:

The general ledger customer deposits payable balance was adjusted to the subsidiary balance upon completion of the annual audit.

RECOMMENDATION:

On a monthly basis, the general ledger customer deposits payable balance should be reconciled to the subsidiary ledger.

RESPONSE:

We concur with the recommendation.

COMPLIANCE AND OTHER MATTERS

NONE