

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

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

**At December 31, 2016 and 2015**

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

**Years Ended December 31, 2016 and 2015**

**TABLE OF CONTENTS**

<b>Independent Auditor's Report</b>	<b>1-2</b>
<b>Basic Financial Statements:</b>	
<b>Statement of Net Position</b>	<b>3</b>
<b>Statement of Revenues, Expenses, and Changes in Fund Net Position</b>	<b>4</b>
<b>Statement of Cash Flows</b>	<b>5-6</b>
<b>Notes to Basic Financial Statements</b>	<b>7-16</b>
<b>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 <u>Government Auditing Standards</u></b>	<b>17-18</b>
<b>Schedule of Findings and Responses</b>	<b>19-20</b>

# RAISOR, ZAPP & WOODS, PSC

## Certified Public Accountants

P.O. Box 354 • 513 Highland Ave • Carrollton, KY 41008  
502-732-6655 • taxes@rzwcepas.com

Dennis S. Raisor, CPA  
Jerilyn P. Zapp, CPA  
Jeffery C. Woods, CPA  
Susan A. Dukes, CPA

### 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, 2016 and 2015, 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, 2016 and 2015, and the 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'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 29, 2017, 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 the 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 29, 2017

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES  
STATEMENT OF NET POSITION  
December 31, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash, Including Time Deposits	\$ 1,152,913	\$ 1,492,046
Accounts Receivable (Net)	121,204	121,375
Interest Receivable	44	44
Prepaid Expenses	9,416	6,265
<b>Total Current Assets</b>	<b>\$ 1,283,577</b>	<b>\$ 1,619,730</b>
<b>Noncurrent Assets:</b>		
<b>Restricted Assets:</b>		
Cash, Including Time Deposits	\$ 1,115,396	\$ 894,613
Interest Receivable	574	304
<b>Capital Assets (Net)</b>	6,908,712	7,140,598
<b>Total Noncurrent Assets</b>	<b>\$ 8,024,682</b>	<b>\$ 8,035,515</b>
<b>Total Assets</b>	<b>\$ 9,308,259</b>	<b>\$ 9,655,245</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 105,658	\$ 96,021
Accounts Payable - Construction	-	31,358
Retainage Payable	-	130,580
Accrued Payroll Taxes/Employee Withholding	1,327	1,216
Utility Tax Payable	2,698	2,558
Sales Tax Payable	155	96
<b>Current Liabilities Payable from Restricted Assets:</b>		
Accrued Interest Payable - Customer Deposits	127	122
Accrued Interest Payable - Long Term Debt	25,597	26,331
Revenue Bonds Payable	50,800	49,300
Notes Payable	56,258	55,287
<b>Total Current Liabilities</b>	<b>\$ 242,620</b>	<b>\$ 392,869</b>
<b>Noncurrent Liabilities:</b>		
Revenue Bonds Payable	\$ 1,397,000	\$ 1,447,800
Notes Payable	1,161,171	1,217,429
<b>Noncurrent Liabilities Payable from Restricted Assets:</b>		
Customer Deposits Payable	125,249	123,569
<b>Total Noncurrent Liabilities</b>	<b>\$ 2,683,420</b>	<b>\$ 2,788,798</b>
<b>Total Liabilities</b>	<b>\$ 2,926,040</b>	<b>\$ 3,181,667</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	\$ 4,243,483	\$ 4,370,782
Restricted for Capital Projects	153,967	153,967
Restricted for Debt Service	811,157	591,050
Unrestricted	1,173,612	1,357,779
<b>Total Net Position</b>	<b>\$ 6,382,219</b>	<b>\$ 6,473,578</b>

**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, 2016 and 2015

	2016	2015
<b>Operating Revenues:</b>		
<b>Charges for Services:</b>		
Water Charges (Net of Estimated Bad Debts)	\$ 1,079,165	\$ 1,068,499
Total Charges for Services	\$ 1,079,165	\$ 1,068,499
<b>Other Charges and Miscellaneous:</b>		
Forfeited Discounts & Service Charges	\$ 31,883	\$ 34,677
Miscellaneous	4,197	385
Total Other Charges and Miscellaneous	\$ 36,080	\$ 35,062
<b>Total Operating Revenues</b>	<b>\$ 1,115,245</b>	<b>\$ 1,103,561</b>
<b>Operating Expenses:</b>		
Commissioner Fees	\$ 13,050	\$ 12,800
Contractual Service	209,300	197,498
Insurance	13,630	10,736
Maintenance of Mains	42,082	16,737
Miscellaneous	5,735	2,587
Office Supplies and Expense	19,914	20,937
Other Interest Expense	409	341
Payroll Taxes	1,349	1,348
Professional Services	26,431	32,873
Purchased Water	456,433	414,325
Purchased Power	29,767	31,410
Regulatory Fees	2,148	9,605
Rental of Building	24,000	24,000
Rental of Equipment	37,212	57,800
Depreciation Expense	262,526	235,127
<b>Total Operating Expenses</b>	<b>\$ 1,143,986</b>	<b>\$ 1,068,124</b>
<b>Net Operating Income</b>	<b>\$ (28,741)</b>	<b>\$ 35,437</b>
<b>Nonoperating Revenue (Expense):</b>		
Investment Income	\$ 5,215	\$ 4,210
Interest Expense	(83,833)	(67,658)
<b>Total Nonoperating Revenue (Expense)</b>	<b>\$ (78,618)</b>	<b>\$ (63,448)</b>
<b>Net Income Before Contributions</b>	<b>\$ (107,359)</b>	<b>\$ (28,011)</b>
<b>Capital Contributions</b>	<b>16,000</b>	<b>24,000</b>
<b>Net Income</b>	<b>\$ (91,359)</b>	<b>\$ (4,011)</b>
<b>Net Position--Beginning of Year</b>	<b>6,473,578</b>	<b>6,477,589</b>
<b>Net Position--End of Year</b>	<b>\$ 6,382,219</b>	<b>\$ 6,473,578</b>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES  
STATEMENT OF CASH FLOWS  
For the Years Ended December 31, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 1,115,416	\$ 1,120,134
Payments to Suppliers	(859,524)	(825,481)
Payments to Employees	(15,450)	(15,200)
Other Receipts (Payments)	1,995	1,376
Net Cash Provided (Used) by Operating Activities	\$ 242,437	\$ 280,829
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Contributions	\$ 16,000	\$ 24,000
Purchase of Capital Assets	(192,578)	(1,253,154)
Note Proceeds	-	537,784
Principal Paid on Long Term Debt	(104,587)	(76,084)
Interest Paid on Long Term Debt	(84,567)	(68,562)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (365,732)	\$ (836,016)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Cash Withdrawn From [Invested in] Certificates of Deposit	\$ (2,284)	\$ (1,314)
Interest Received	5,215	4,210
Net Cash Provided (Used) by Investing Activities	\$ 2,931	\$ 2,896
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (120,364)	\$ (552,291)
Balances-Beginning of the Year	2,075,103	2,627,394
Balances-End of the Year	\$ 1,954,739	\$ 2,075,103

	Balances Per December 31, 2016 Statement of Net Position	Balances Per December 31, 2016 Statement of Cash Flows
Cash	\$ 1,008,695	\$ 1,008,695
Time Deposits	144,218	-
Restricted Cash	946,044	946,044
Restricted Time Deposits	169,352	-
Total Cash and Cash Equivalents, End of Year	\$ 2,268,309	\$ 1,954,739
	Balances Per December 31, 2015 Statement of Net Position	Balances Per December 31, 2015 Statement of Cash Flows
Cash	\$ 1,348,872	\$ 1,348,872
Time Deposits	143,174	-
Restricted Cash	726,231	726,231
Restricted Time Deposits	168,382	-
Total Cash and Cash Equivalents, End of Year	\$ 2,386,659	\$ 2,075,103

(Continued)

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES**  
**STATEMENT OF CASH FLOWS**  
For the Years Ended December 31, 2016 and 2015

	2016	2015
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ (28,741)	\$ 35,437
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	262,526	235,127
Change in Assets and Liabilities:		
Receivables, Net	171	16,573
Prepaid Expenses	(3,151)	(43)
Accounts and Other Payables	9,637	(7,641)
Accrued Expenses	315	(229)
Customer Meter Deposits Payable	1,680	1,605
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 242,437</b>	<b>\$ 280,829</b>

**SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

At December 31, 2016, U.S. 60 Water District of Shelby and Franklin Counties had no construction or retainage payable.

At December 31, 2015, U.S. 60 Water District of Shelby and Franklin Counties had \$161,938 capitalized expenditures for the construction/acquisition of plant assets included in accounts payable - construction and retainage payable on the Statement of Net Position.



**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

**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, 2016 and 2015

**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.

**Deferred Outflows and Deferred Inflows:** Deferred inflows of resources and deferred outflows of resources are not assets or liabilities; revenues or expenses. Rather, they represent resources or the use of resources related to future periods.

**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. No grant funds were received by the District for the years ended December 31, 2016 and 2015. Tap-on fees of \$16,000 and \$24,000 were received by the District for the years ended December 31, 2016 and 2015, respectively.

**Net Position:** 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.

**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
+	<u>one twelfth (1/12) of the next annual principal payment</u>
=	monthly transfer

Transfers sufficient to meet the total obligation were made timely during the years ended December 31, 2016 and 2015. Excess transfers were made during the years ended December 31, 2016 and 2015.

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2016 and 2015**

**NOTE 2 – DEBT RESTRICTIONS AND COVENANTS (Continued)**

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 2013B bond resolution maintained the provisions of the prior bond legislation. The required minimum monthly transfers and balances are as follows:

	Monthly Requirements	Required 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	\$ 92,400

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, 2016 and 2015, monthly transfers continue to be made.

Under the Kentucky Infrastructure Authority Loan B14-003 Assistance Agreement, a replacement reserve account is to be maintained by the District. The annual replacement cost of \$3,300 should be added to the replacement account on each December 1 until the balance reaches \$33,000 and maintained for the life of the loan. Amounts in the Maintenance and Replacement Reserve may be used for extraordinary maintenance expenses related to the project or for the costs of replacing worn or obsolete portions of the project. If amounts are withdrawn from the Maintenance and Replacement Reserve Fund, the District shall again make the periodic deposits hereinabove required until the \$33,000 maximum balance is again reinstated. A separate reserve has not been established for the Kentucky Infrastructure Authority Reserve. However, the District has funded reserve accounts sufficient to fund the required accumulation mandated in the bond agreements plus the KIA required balance at December 31, 2016 and 2015.

After the required monthly transfers to the respective bond and interest account and depreciation account, a transfer shall be made from the Revenue Fund and deposited into the Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating & maintaining the system. The balance maintained in the Operation and Maintenance Fund shall not be in excess of two months of the District's operating budget. Sixty days following year end, all remaining funds in the revenue account in excess of two (2) months operating budget requirements are to be transferred to the depreciation account.

At December 31, 2016, \$165,027 was calculated as the required transfer to be made and has been considered restricted.

**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.

**Custodial Credit Risk**

U.S. 60 Water District of Shelby and Franklin Counties' policies regarding deposits of cash are in accordance with Kentucky statutes. Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2016, in accordance with the District's policy, \$982,891 of the District's deposits were covered by federal depository insurance and \$1,288,763 were collateralized by securities held by the pledging financial institutions' agent in the District's name. As of

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2016 and 2015

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**Custodial Credit Risk (Continued)**

December 31, 2015, in accordance with the District's policy, \$940,215 of the District's deposits were covered by federal depository insurance and \$1,448,055 were collateralized by securities held by the pledging financial institutions' agent in the District's name. Thus the District had no deposits that were exposed to custodial credit risk at December 31, 2016 and 2015.

Cash and cash equivalents consisted of the following:

**December 31, 2016**

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 1,105,121	\$ 1,101,776
Time and Savings	1,166,533	1,166,533
Total Deposits	<u>\$ 2,271,654</u>	<u>\$ 2,268,309</u>

**December 31, 2015**

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 1,159,926	\$ 1,158,315
Time and Savings	1,228,344	1,228,344
Total Deposits	<u>\$ 2,388,270</u>	<u>\$ 2,386,659</u>

Reconciliation to Statement of Net Position:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Unrestricted Cash, Including Time Deposits	\$ 1,152,913	\$ 1,492,046
Restricted Cash, Including Time Deposits	1,115,396	894,613
	<u>\$ 2,268,309</u>	<u>\$ 2,386,659</u>

**NOTE 4 – RESTRICTED ASSETS**

Restricted cash and time deposits consist of the following:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Bond and Interest Sinking Accounts	\$ 398,179	\$ 351,324
Depreciation Accounts	438,001	265,753
Customer Deposits	125,249	123,569
Construction Accounts	153,967	153,967
Total	<u>\$ 1,115,396</u>	<u>\$ 894,613</u>

Restricted receivables consist of the following:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Interest Receivable	\$ 574	\$ 304

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**December 31, 2016 and 2015**

**NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE**

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$19,563 and \$11,911 at December 31, 2016 and 2015, 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 \$34,348 and \$43,610 is included in accounts receivable at December 31, 2016 and 2015, respectively.

**NOTE 6 – CAPITAL ASSETS**

Capital asset activity for the years ended December 31, 2016 and 2015, was as follows:

	Balance at January 1, 2016	Additions	Disposals	Balance at December 31, 2016
Structures & Improvements	\$ 24,234	\$ -	\$ -	\$ 24,234
Distribution System	10,699,415	30,640	(32,368)	10,697,687
Machinery & Equipment	306,959	-	-	306,959
Construction in Process	-	-	-	-
Totals at Historical Cost	<u>\$ 11,030,608</u>	<u>\$ 30,640</u>	<u>\$ (32,368)</u>	<u>\$ 11,028,880</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (23,113)	\$ (254)	\$ -	\$ (23,367)
Distribution System	(3,694,091)	(253,281)	32,368	(3,915,004)
Machinery & Equipment	(172,806)	(8,991)	-	(181,797)
Total Accumulated Depreciation	<u>\$ (3,890,010)</u>	<u>\$ (262,526)</u>	<u>\$ 32,368</u>	<u>\$ (4,120,168)</u>
Capital Assets, Net	<u>\$ 7,140,598</u>	<u>\$ (231,886)</u>	<u>\$ -</u>	<u>\$ 6,908,712</u>

  

	Balance at January 1, 2015	Additions	Disposals	Balance at December 31, 2015
Structures & Improvements	\$ 24,234	\$ -	\$ -	\$ 24,234
Distribution System	8,917,538	1,807,644	(25,767)	10,699,415
Machinery & Equipment	306,959	-	-	306,959
Construction in Process	877,860	893,784	(1,771,644)	-
Totals at Historical Cost	<u>\$ 10,126,591</u>	<u>\$ 2,701,428</u>	<u>\$ (1,797,411)</u>	<u>\$ 11,030,608</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (22,859)	\$ (254)	\$ -	\$ (23,113)
Distribution System	(3,494,065)	(225,793)	25,767	(3,694,091)
Machinery & Equipment	(163,726)	(9,080)	-	(172,806)
Total Accumulated Depreciation	<u>\$ (3,680,650)</u>	<u>\$ (235,127)</u>	<u>\$ 25,767</u>	<u>\$ (3,890,010)</u>
Capital Assets, Net	<u>\$ 6,445,941</u>	<u>\$ 2,466,301</u>	<u>\$ (1,771,644)</u>	<u>\$ 7,140,598</u>

Included under the District's capital assets were \$555,329 and \$576,329 of fully depreciated assets at December 31, 2016 and 2015, respectively. Construction in process is not depreciated. Also included in the District's capital assets at December 31, 2016 and 2015 was \$23,590 and \$13,028 of accumulated depreciation for the Peytona Standpipe that the District plans to dismantle in 2017. No depreciation expense was recorded for this asset in 2016.

Depreciation expense for 2016 and 2015 was \$262,526 and \$228,490, respectively.

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2016 and 2015

**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, 2016 and 2015, accrued interest on customer deposits was \$127 and \$122, respectively. The District has not maintained a separate bank account specifically for cash collected and disbursed relating to customer deposits.

**NOTE 8 – LONG-TERM DEBT**

As of December 31, 2016 and 2015, long-term debt payable consisted of the following:

Bonds Payable:

	December 31, 2016	December 31, 2015
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.	\$ 351,900	\$ 361,200
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.	132,900	134,900
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.	568,000	576,000
2013B Revenue Bonds (Flexible Term Program) original issue amount of \$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.	395,000	425,000
Total Bonds Payable	\$ 1,447,800	\$ 1,497,100
Current Portion	\$ 50,800	\$ 49,300
Noncurrent Portion	1,397,000	1,447,800
Total Bonds Payable	\$ 1,447,800	\$ 1,497,100

**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 2013B issue is February 1, 2032.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 December 31, 2016 and 2015

NOTE 8 – LONG-TERM DEBT (Continued)

The annual requirements for all bonds payable outstanding at December 31, 2016 are as follows:

	Principal	Interest	Total
2017	\$ 50,800	\$ 58,165	\$ 108,965
2018	56,200	56,462	112,662
2019	56,800	54,677	111,477
2020	58,300	52,846	111,146
2021	59,000	50,878	109,878
2022-2026	304,000	220,683	524,683
2027-2031	224,600	170,249	394,849
2032-2036	227,300	119,994	347,294
2037-2041	190,000	69,896	259,896
2042-2046	179,600	30,816	210,416
2047	41,200	947	42,147
	<u>\$ 1,447,800</u>	<u>\$ 885,613</u>	<u>\$ 2,333,413</u>

The annual requirements for all bonds payable outstanding at December 31, 2015 are as follows:

	Principal	Interest	Total
2016	\$ 49,300	\$ 59,767	\$ 109,067
2017	50,800	58,165	108,965
2018	56,200	56,462	112,662
2019	56,800	54,677	111,477
2020	58,300	52,846	111,146
2021-2025	322,600	232,000	554,600
2026-2030	217,300	179,677	396,977
2031-2035	227,900	130,201	358,101
2036-2040	206,200	78,951	285,151
2041-2045	171,200	38,888	210,088
2046-2047	80,500	3,746	84,246
	<u>\$ 1,497,100</u>	<u>\$ 945,380</u>	<u>\$ 2,442,480</u>

Notes Payable:

2014 Kentucky Infrastructure Authority note, original loan amount of \$1,300,000, secured by water revenues. Interest is charged at a rate of 1.75% per annum plus loan servicing fees of 0.20%. Final maturity is June 1, 2035.

Total Notes Payable

	December 31, 2016	December 31, 2015
	\$ 1,217,429	\$ 1,272,716
	<u>\$ 1,217,429</u>	<u>\$ 1,272,716</u>

Current Portion  
 Noncurrent Portion  
 Total Notes Payable

	December 31, 2016	December 31, 2015
	\$ 56,258	\$ 55,287
	1,161,171	1,217,429
	<u>\$ 1,217,429</u>	<u>\$ 1,272,716</u>

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2016 and 2015

**NOTE 8 – LONG-TERM DEBT (Continued)**

The annual requirements for all notes payable outstanding at December 31, 2016 are as follows:

	Principal	Interest	Service Fees	Total
2017	\$ 56,258	\$ 21,060	\$ 2,407	\$ 79,725
2018	57,247	20,071	2,294	79,612
2019	58,253	19,065	2,179	79,497
2020	59,277	18,041	2,062	79,380
2021	60,319	16,999	1,942	79,260
2022-2026	317,877	68,715	7,853	394,445
2027-2031	346,812	39,780	4,546	391,138
2032-2035	261,386	9,228	1,055	271,669
	<u>\$ 1,217,429</u>	<u>\$ 212,959</u>	<u>\$ 24,338</u>	<u>\$ 1,454,726</u>

The annual requirements for all notes payable outstanding at December 31, 2015 are as follows:

	Principal	Interest	Service Fees	Total
2016	\$ 55,287	\$ 22,032	\$ 2,518	\$ 79,837
2017	56,258	21,060	2,407	79,725
2018	57,247	20,071	2,294	79,612
2019	58,253	19,065	2,179	79,497
2020	59,277	18,041	2,062	79,380
2021-2025	312,386	74,206	8,481	395,073
2026-2030	340,821	45,770	5,231	391,822
2031-2035	333,187	14,746	1,684	349,617
	<u>\$ 1,272,716</u>	<u>\$ 234,991</u>	<u>\$ 26,856</u>	<u>\$ 1,534,563</u>

**Changes in Long-term Debt**

The following is a summary of changes in long-term debt for the year ended December 31, 2016.

	Balance at January 1, 2016	Additions	Retirements	Balance at December 31, 2016	Current Portion
Revenue Bonds Payable	\$ 1,497,100	\$ -	\$ 49,300	\$ 1,447,800	\$ 50,800
Notes Payable	1,272,716	-	55,287	1,217,429	56,258
Total Long-Term Debt	<u>\$ 2,769,816</u>	<u>\$ -</u>	<u>\$ 104,587</u>	<u>\$ 2,665,229</u>	<u>\$ 107,058</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2015.

	Balance at January 1, 2015	Additions	Retirements	Balance at December 31, 2015	Current Portion
Revenue Bonds Payable	\$ 1,545,900	\$ -	\$ 48,800	\$ 1,497,100	\$ 49,300
Notes Payable	762,216	537,784	27,284	1,272,716	55,287
Total Long-Term Debt	<u>\$ 2,308,116</u>	<u>\$ 537,784</u>	<u>\$ 76,084</u>	<u>\$ 2,769,816</u>	<u>\$ 104,587</u>



U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES  
 SCHEDULE OF FINDINGS AND RESPONSES  
 For the Year Ended December 31, 2016

**NOTE 8 – LONG-TERM DEBT (Continued)**

The annual requirements for all long-term debt outstanding at December 31, 2016 is as follows:

	Principal	Interest	Service Fees	Total
2017	\$ 107,058	\$ 79,225	\$ 2,407	\$ 188,690
2018	113,447	76,533	2,294	192,274
2019	115,053	73,742	2,179	190,974
2020	117,577	70,887	2,062	190,526
2021	119,319	67,877	1,942	189,138
2022-2026	621,877	289,398	7,853	919,128
2027-2031	571,412	210,029	4,546	785,987
2032-2036	488,686	129,222	1,055	618,963
2037-2041	190,000	69,896	-	259,896
2042-2046	179,600	30,816	-	210,416
2047	41,200	947	-	42,147
	<u>\$ 2,665,229</u>	<u>\$ 1,098,572</u>	<u>\$ 24,338</u>	<u>\$ 3,788,139</u>

The annual requirements for all long-term debt outstanding at December 31, 2015 is as follows:

	Principal	Interest	Service Fees	Total
2016	\$ 104,587	\$ 81,799	\$ 2,518	\$ 188,904
2017	107,058	79,225	2,407	188,690
2018	113,447	76,533	2,294	192,274
2019	115,053	73,742	2,179	190,974
2020	117,577	70,887	2,062	190,526
2021-2025	634,986	306,206	8,481	949,673
2026-2030	558,121	225,447	5,231	788,799
2031-2035	561,087	144,947	1,684	707,718
2036-2040	206,200	78,951	-	285,151
2041-2045	171,200	38,888	-	210,088
2046-2047	80,500	3,746	-	84,246
	<u>\$ 2,769,816</u>	<u>\$ 1,180,371</u>	<u>\$ 26,856</u>	<u>\$ 3,977,043</u>

**NOTE 9 – INTEREST EXPENSE**

Interest expense incurred for the year ended December 31, 2016 and 2015 was \$84,242 and \$82,839, respectively. Interest of \$0 and \$14,840 was capitalized in 2016 and 2015, respectively.

**NOTE 10 – FUND EQUITY – RESTRICTED NET POSITION**

	December 31, 2016	December 31, 2015
Restricted for Capital Projects:		
Monies Restricted for Construction	\$ 153,967	\$ 153,967
Total Restricted for Capital Projects	<u>\$ 153,967</u>	<u>\$ 153,967</u>

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2016 and 2015

**NOTE 10 – FUND EQUITY – RESTRICTED NET POSITION (Continued)**

Restricted for Debt Service:

Revenue Bonds of 1998, 2008A, 2008B, & 2013B and KIA Note Payable B14-003

Cash	\$	836,180	\$	617,077
Add: Accrued Interest Receivable		574		304
Less: Accrued Interest Payable		(25,597)		(26,331)
Total Restricted for Debt Service	\$	811,157	\$	591,050

**NOTE 11 – BAD DEBT EXPENSE**

Water revenue charges have been netted with an estimated bad debt expense of \$7,652 and \$3,193 at December 31, 2016 and 2015, 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 99.85% and 100.00% of the water it sold from Frankfort Electric and Water Plant Board for the years ended December 31, 2016 and 2015, respectively.

**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 \$289,245 and \$281,382 for the years ended December 31, 2016 and 2015, respectively. There were amounts payable to North Shelby Water Company in the amount of \$3,313 and \$24,090 at December 31, 2016 and 2015, respectively. The December, 2016 payable to North Shelby Water Company of \$28,484 was reduced by \$25,170 for an overpayment made by the District during the year.

**NOTE 15 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS**

During 2017, U.S. 60 Water District plans to dismantle the Peytona Standpipe that was taken out of service when the new 750,000 gallon elevated water tank at Peytona was placed in service. No estimate has been made for the cost to dismantle.

The District has received approval on a \$2,300,000 loan at 2.00% from the Kentucky Infrastructure Authority Infrastructure Revolving Loan Fund for the Shelbyville Transmission Main. This project will construct approximately 31,000 linear feet of 12 inch waterline along U.S. 60 from Shelbyville to the new water tank at Peytona as well as a new booster pump station. In May, 2016 the construction contract was awarded to Joda International in the amount of \$960,491 and the supplies contract was awarded to Ferguson Waterworks in the amount of \$506,402. Construction began on this project in January 2017 with an estimated completion date of June 15, 2017.

# RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

P.O. Box 354 • 513 Highland Ave • Carrollton, KY 41008  
502-732-6655 • taxes@rzwcpas.com

Dennis S. Raisor, CPA  
Jerilyn P. Zapp, CPA  
Jeffery C. Woods, CPA  
Susan A. Dukes, CPA

## 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 the U.S. 60 Water District of Shelby and Franklin Counties as of and for the year ended December 31, 2016, 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, and have issued our report thereon dated March 29, 2017.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the 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 the U.S. 60 Water District of Shelby and Franklin Counties' internal control. Accordingly, we do not express an opinion on the effectiveness of the U.S. 60 Water District of Shelby and Franklin Counties' 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 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (Items 2016-001 and 2016-002).

**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the 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, P.S.C.*

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

March 29, 2017

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended December 31, 2016

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unmodified opinion on the financial statements of U.S. 60 Water District of Shelby and Franklin Counties.
2. Two 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 2016-001 and 2016-002 were reported as material weaknesses.
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**

**2016-001 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, 2015 as item 2015-001.

**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. Internal controls should also be in place to provide oversight of all functions both internal and outsourced.

**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. The District was overcharged \$24,820 during the year for mileage that was incorrectly calculated on the joint contract bill with North Shelby Water Company. Sales tax was inappropriately paid on expenditures of the District. The District has not passed through rate increases of their water supplier for a period of time greater than one year.

**RECOMMENDATION:**

Management should strive to provide cross-training for administrative staff and implement checking processes. The District should maintain all documentation. The District should provide oversight of all functions both internal and outsourced.

**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. Staff has been made aware of over-reliance on spreadsheet calculations and will periodically manually review and recalculate. Invoices will be more closely monitored for sales tax. Procedures will be put in place to consider implementing (pass-through) rate increases 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, 2016**

**B. FINDINGS - FINANCIAL STATEMENTS AUDIT**

**GOVERNMENT AUDITING STANDARDS**

**DEFICIENCIES IN INTERNAL CONTROL (Continued)**

**2016-002 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, 2015 as Item 2015-002.

**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.

**COMPLIANCE AND OTHER MATTERS**

**NONE**