

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

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

At December 31, 2017 and 2016

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

Years Ended December 31, 2017 and 2016

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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, 2017 and 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 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, 2017 and 2016, 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 28, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's 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 28, 2018

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF NET POSITION
December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash, Including Time Deposits	\$ 1,164,812	\$ 1,152,913
Accounts Receivable (Net)	113,871	121,204
Interest Receivable	48	44
Prepaid Expenses	9,536	9,416
Total Current Assets	<u>\$ 1,288,267</u>	<u>\$ 1,283,577</u>
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 1,108,820	\$ 1,115,396
Interest Receivable	51	574
Capital Assets (Net)	8,490,275	6,908,712
Total Noncurrent Assets	<u>\$ 9,599,146</u>	<u>\$ 8,024,682</u>
Total Assets	<u>\$ 10,887,413</u>	<u>\$ 9,308,259</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 116,707	\$ 105,658
Accrued Payroll Taxes/Employee Withholding	1,231	1,327
Utility Tax Payable	2,650	2,698
Sales Tax Payable	98	155
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable - Customer Deposits	1,665	127
Accrued Interest Payable - Long Term Debt	27,177	25,597
Revenue Bonds Payable	56,200	50,800
Notes Payable	129,841	56,258
Total Current Liabilities	<u>\$ 335,569</u>	<u>\$ 242,620</u>
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 1,340,800	\$ 1,397,000
Notes Payable	2,753,234	1,161,171
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	129,354	125,249
Total Noncurrent Liabilities	<u>\$ 4,223,388</u>	<u>\$ 2,683,420</u>
Total Liabilities	<u>\$ 4,558,957</u>	<u>\$ 2,926,040</u>
NET POSITION		
Net Investment in Capital Assets	\$ 4,210,200	\$ 4,243,483
Restricted for Capital Projects	153,966	153,967
Restricted for Debt Service	798,374	811,157
Unrestricted	1,165,916	1,173,612
Total Net Position	<u>\$ 6,328,456</u>	<u>\$ 6,382,219</u>

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, 2017 and 2016

	2017	2016
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 1,107,280	\$ 1,079,165
Total Charges for Services	\$ 1,107,280	\$ 1,079,165
Other Charges and Miscellaneous:		
Forfeited Discounts & Service Charges	\$ 33,187	\$ 31,883
Miscellaneous	521	4,197
Total Other Charges and Miscellaneous	\$ 33,708	\$ 36,080
Total Operating Revenues	\$ 1,140,988	\$ 1,115,245
Operating Expenses:		
Commissioner Fees	\$ 13,200	\$ 13,050
Contractual Service	236,792	209,300
Insurance	16,555	13,630
Maintenance of Mains	23,725	42,082
Miscellaneous	2,928	5,735
Office Supplies and Expense	18,452	19,914
Other Interest Expense	1,822	409
Payroll Taxes	1,273	1,349
Professional Services	31,704	26,431
Purchased Water	462,641	456,433
Purchased Power	29,703	29,767
Regulatory Fees	2,241	2,148
Rental of Building	28,000	24,000
Rental of Equipment	38,192	37,212
Depreciation Expense	194,039	262,526
Total Operating Expenses	\$ 1,101,267	\$ 1,143,986
Net Operating Income	\$ 39,721	\$ (28,741)
Nonoperating Revenue (Expense):		
Investment Income	\$ 6,010	\$ 5,215
Interest Expense	(80,951)	(83,833)
Gain (Loss) on Sale/Abandonment of Fixed Assets	(43,023)	-
Total Nonoperating Revenue (Expense)	\$ (117,964)	\$ (78,618)
Net Income Before Contributions	\$ (78,243)	\$ (107,359)
Capital Contributions	24,480	16,000
Net Income	\$ (53,763)	\$ (91,359)
Net Position--Beginning of Year	6,382,219	6,473,578
Net Position--End of Year	\$ 6,328,456	\$ 6,382,219

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,148,321	\$ 1,115,416
Payments to Suppliers	(880,874)	(859,524)
Payments to Employees	(15,425)	(15,450)
Other Receipts (Payments)	5,442	1,995
Net Cash Provided (Used) by Operating Activities	\$ 257,464	\$ 242,437
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 24,480	\$ 16,000
Purchase of Capital Assets	(1,780,337)	(192,578)
Capitalized Interest Paid	(13,024)	-
Cost to Dispose of Capital Assets	(25,264)	-
Note Proceeds	1,721,905	-
Principal Paid on Long Term Debt	(107,059)	(104,587)
Interest Paid on Long Term Debt	(79,371)	(84,567)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (258,670)	\$ (365,732)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash Withdrawn From [Invested in] Certificates of Deposit	\$ (2,812)	\$ (2,284)
Interest Received	6,010	5,215
Net Cash Provided (Used) by Investing Activities	\$ 3,198	\$ 2,931
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 1,992	\$ (120,364)
Balances-Beginning of the Year	1,954,739	2,075,103
Balances-End of the Year	\$ 1,956,731	\$ 1,954,739

	Balances Per December 31, 2017 Statement of Net Position	Balances Per December 31, 2017 Statement of Cash Flows
Cash	\$ 1,019,364	\$ 1,019,364
Time Deposits	145,448	-
Restricted Cash	937,367	937,367
Restricted Time Deposits	171,453	-
Total Cash and Cash Equivalents, End of Year	\$ 2,273,632	\$ 1,956,731
	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

(Continued)

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

	2017	2016
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 39,721	\$ (28,741)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	194,039	262,526
Change in Assets and Liabilities:		
Receivables, Net	7,333	171
Prepaid Expenses	(120)	(3,151)
Accounts and Other Payables	11,049	9,637
Accrued Expenses	1,337	315
Customer Meter Deposits Payable	4,105	1,680
Net Cash Provided by Operating Activities	\$ 257,464	\$ 242,437

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2017 and 2016, U.S. 60 Water District of Shelby and Franklin Counties had no construction or retainage payable.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016

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	15-62.5 years
- Machinery & Equipment	5-50 years

Construction in process represents costs related to various water line extensions being installed by the District as well as system improvements. Expenses for maintenance and repairs that do not increase the useful life of the asset are charged to operations as they are incurred.

As part of the rate increase study performed by the Public Service Commission (PSC) during 2017, it was recommended to the District that the lives of distribution system assets be extended to reflect recommendations made by the PSC during its review. Depreciation Expense has been calculated using straight line depreciation as applied to the assets' historical costs over the revised asset lives.

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, 2017 and 2016. Tap-on fees of \$24,480 and \$16,000 were received by the District for the years ended December 31, 2017 and 2016, 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

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS (Continued)

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, 2017 and 2016. Excess transfers were made during the years ended December 31, 2017 and 2016.

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, 2017 and 2016, monthly transfers continue to be made.

Under the Kentucky Infrastructure Authority Loan B14-003 and B15-007 Assistance Agreements, a replacement reserve account is to be maintained by the District. For KIA Loan B14-003 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. Under the KIA Loan B15-007 assistance agreement the District shall deposit into the Maintenance and Replacement Reserve on or before each payment date identified in the schedule of payments an amount equal to ten percent (10%) of the amount of such loan payment until the amount on deposit in such fund is equal to five percent (5%) of the original principal amount 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 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 Loan B14-003 required balance at December 31, 2017 and 2016. The KIA Loan B15-007 has not closed as December 31, 2017 and therefore transfers for this loan have not begun.

After the required monthly transfers to the respective bond and interest account and depreciation account(s), 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, 2017 and 2016, \$138,469 and \$165,027, respectively, were calculated as the required transfer to be made and have been considered restricted.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

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, 2017, in accordance with the District's policy, \$999,205 of the District's deposits were covered by federal depository insurance and \$1,277,683 were collateralized by securities held by the pledging financial institutions' agent in the District's name. 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. Thus the District had no deposits that were exposed to custodial credit risk at December 31, 2017 and 2016.

Cash and cash equivalents consisted of the following:

December 31, 2017

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 1,091,794	\$ 1,088,538
Time and Savings	1,185,094	1,185,094
Total Deposits	\$ 2,276,888	\$ 2,273,632

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	\$ 2,271,654	\$ 2,268,309

Reconciliation to Statement of Net Position:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unrestricted Cash, Including Time Deposits	\$ 1,164,812	\$ 1,152,913
Restricted Cash, Including Time Deposits	1,108,820	1,115,396
	\$ 2,273,632	\$ 2,268,309

NOTE 4 – RESTRICTED ASSETS

Restricted cash and time deposits consist of the following:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Bond and Interest Sinking Accounts	\$ 406,613	\$ 398,179
Depreciation Accounts	418,887	438,001
Customer Deposits	129,354	125,249
Construction Accounts	153,966	153,967
Total	\$ 1,108,820	\$ 1,115,396

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 4 – RESTRICTED ASSETS (Continued)

Restricted receivables consist of the following:

	December 31, 2017	December 31, 2016
Interest Receivable	\$ 51	\$ 574

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$24,404 and \$19,563 at December 31, 2017 and 2016, 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 \$31,399 and \$34,348 is included in accounts receivable at December 31, 2017 and 2016, respectively.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2017 and 2016, was as follows:

	Balance at January 1, 2017	Additions	Disposals	Balance at December 31, 2017
Structures & Improvements	\$ 24,234	\$ -	\$ -	\$ 24,234
Distribution System	10,697,687	1,686,033	(49,237)	12,334,483
Machinery & Equipment	306,959	107,328	-	414,287
Construction in Process	-	1,721,905	(1,721,905)	-
Totals at Historical Cost	\$ 11,028,880	\$ 3,515,266	\$ (1,771,142)	\$ 12,773,004
Less: Accumulated Depreciation				
Structures & Improvements	\$ (23,367)	\$ (254)	\$ -	\$ (23,621)
Distribution System	(3,915,004)	(183,691)	31,478	(4,067,217)
Machinery & Equipment	(181,797)	(10,094)	-	(191,891)
Total Accumulated Depreciation	\$ (4,120,168)	\$ (194,039)	\$ 31,478	\$ (4,282,729)
Capital Assets, Net	\$ 6,908,712	\$ 3,321,227	\$ (1,739,664)	\$ 8,490,275

	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	\$ 11,030,608	\$ 30,640	\$ (32,368)	\$ 11,028,880
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	\$ (3,890,010)	\$ (262,526)	\$ 32,368	\$ (4,120,168)
Capital Assets, Net	\$ 7,140,598	\$ (231,886)	\$ -	\$ 6,908,712

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 6 – CAPITAL ASSETS (Continued)

Included under the District's capital assets were \$542,371 and \$555,329 of fully depreciated assets at December 31, 2017 and 2016, respectively. Construction in process is not depreciated. Also included in the District's capital assets at December 31, 2016 was \$23,590 of accumulated depreciation for the Peytona Standpipe that the District dismantled in 2017. No depreciation expense was recorded for this asset in 2017 or 2016.

Depreciation expense for 2017 and 2016 was \$194,039 and \$262,526, 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, 2017 and 2016, accrued interest on customer deposits was \$1,665 and \$127, 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, 2017 and 2016, long-term debt payable consisted of the following:

Bonds Payable:

	December 31, 2017	December 31, 2016
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.	\$ 342,200	\$ 351,900
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.	130,800	132,900
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.	559,000	568,000
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.	365,000	395,000
Total Bonds Payable	\$ 1,397,000	\$ 1,447,800
Current Portion	\$ 56,200	\$ 50,800
Noncurrent Portion	1,340,800	1,397,000
Total Bonds Payable	\$ 1,397,000	\$ 1,447,800

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2017 and 2016

NOTE 8 – LONG-TERM DEBT (Continued)

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.

The annual requirements for all bonds payable outstanding at December 31, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	60,600	48,767	109,367
2023-2027	285,600	209,734	495,334
2028-2032	232,200	160,451	392,651
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>\$ 1,397,000</u>	<u>\$ 827,448</u>	<u>\$ 2,224,448</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 8 – LONG-TERM DEBT (Continued)

Notes Payable:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
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.	\$ 1,161,170	\$ 1,217,429
2016 Kentucky Infrastructure Authority note, original loan amount of \$1,721,905, 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 December 1, 2037. The loan had not closed as of December 31, 2017.	1,721,905	-
Total Notes Payable	\$ 2,883,075	\$ 1,217,429
Current Portion	\$ 129,841	\$ 56,258
Noncurrent Portion	2,753,234	1,161,171
Total Notes Payable	\$ 2,883,075	\$ 1,217,429

The annual requirements for all notes payable outstanding at December 31, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Total</u>
2018	\$ 129,841	\$ 50,115	\$ 5,701	\$ 185,657
2019	132,123	47,606	5,441	185,170
2020	134,446	45,284	5,175	184,905
2021	136,809	42,921	4,905	184,635
2022	139,214	40,516	4,630	184,360
2023-2027	733,643	165,005	18,858	917,506
2028-2032	800,424	98,224	11,225	909,873
2033-2037	676,575	28,776	3,290	708,641
	\$ 2,883,075	\$ 518,447	\$ 59,225	\$ 3,460,747

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

	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Total</u>
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
2032-2037	261,386	9,228	1,055	271,669
	\$ 1,217,429	\$ 212,959	\$ 24,338	\$ 1,454,726

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2017.

	Balance at January 1, 2017	Additions	Retirements	Balance at December 31, 2017	Current Portion
Revenue Bonds Payable	\$ 1,447,800	\$ -	\$ 50,800	\$ 1,397,000	\$ 56,200
Notes Payable	1,217,429	1,721,905	56,259	2,883,075	129,841
Total Long-Term Debt	\$ 2,665,229	\$ 1,721,905	\$ 107,059	\$ 4,280,075	\$ 186,041

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	\$ 2,769,816	\$ -	\$ 104,587	\$ 2,665,229	\$ 107,058

The annual requirements for all long-term debt outstanding at December 31, 2017 is as follows:

	Principal	Interest	Service Fees	Total
2018	\$ 186,041	\$ 106,577	\$ 5,701	\$ 298,319
2019	188,923	102,283	5,441	296,647
2020	192,746	98,130	5,175	296,051
2021	195,809	93,799	4,905	294,513
2022	199,814	89,283	4,630	293,727
2023-2027	1,019,243	374,739	18,858	1,412,840
2028-2032	1,032,624	258,675	11,225	1,302,524
2033-2037	903,275	138,484	3,290	1,045,049
2038-2042	174,000	61,557	-	235,557
2043-2047	187,600	22,368	-	209,968
	\$ 4,280,075	\$ 1,345,895	\$ 59,225	\$ 5,685,195

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
	\$ 2,665,229	\$ 1,098,572	\$ 24,338	\$ 3,788,139

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2017 and 2016

NOTE 9 – INTEREST EXPENSE

Interest expense incurred for the year ended December 31, 2017 and 2016 was \$82,773 and \$84,242, respectively. Interest of \$13,024 and \$0 was capitalized in 2017 and 2016, respectively.

NOTE 10 – FUND EQUITY – RESTRICTED NET POSITION

	December 31, 2017	December 31, 2016
Restricted for Capital Projects:		
Monies Restricted for Construction	\$ 153,966	\$ 153,967
Total Restricted for Capital Projects	\$ 153,966	\$ 153,967
Restricted for Debt Service:		
Revenue Bonds of 1998, 2008A, 2008B, & 2013B and KIA Note Payable B14-003 and B15-007.		
Cash	\$ 825,500	\$ 836,180
Add: Accrued Interest Receivable	51	574
Less: Accrued Interest Payable	(27,177)	(25,597)
Total Restricted for Debt Service	\$ 798,374	\$ 811,157

NOTE 11 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$8,887 and \$7,652 at December 31, 2017 and 2016, 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 90.05% and 99.85% of the water it sold from Frankfort Electric and Water Plant Board for the years ended December 31, 2017 and 2016, respectively. The District began purchasing increased quantities of water from Shelbyville Municipal Water beginning in May 2017. For the year ended December 31, 2017, the District purchased 9.95% of the water it sold from Shelbyville Municipal Water.

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 \$285,669 and \$293,534 for the years ended December 31, 2017 and 2016, respectively. There were amounts payable to North Shelby Water Company in the amount of \$25,005 and \$3,313 at December 31, 2017 and 2016, respectively. The December 2017 payable to North Shelby Water Company of \$19,832 was increased by \$5,173 for an undercharge to the District at yearend. 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

U.S. 60 Water District of Shelby and Franklin Counties was given an \$80,000 grant by the 2004 General Assembly under HB 267. These grant funds were reallocated in the 2016 General Assembly to a project entitled "KY 151 Loop". This project will include approximately 4,400 LF of 6" inch distribution pipeline to serve seven underserved and three unserved customers of KY Highway 151. These funds will be available to the District as the project is completed.

RAISOR, ZAPP & WOODS, PSC

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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, 2017, 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 28, 2018.

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 of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been 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 2017-001 and 2017-002).

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 are 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 28, 2018

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2017**

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 2017-001 and 2017-002 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

2017-001 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, 2016 as Item 2016-001.

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 undercharged \$5,173 during the year for expenses that were incorrectly calculated on the joint contract bill with North Shelby Water Company. The updated rates in the agreement for 2017 were not billed properly. Sales tax was inappropriately paid on expenditures of the District. Proper approvals by District personnel were not present on construction invoices.

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. Staff will thoroughly review updates to contracts and will review implementation of new rates. Invoices will be more closely monitored for sales tax.

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2017**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL (Continued)

**2017-002 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, 2016 as Item 2016-002.

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