

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

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

At December 31, 2018 and 2017

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

Years Ended December 31, 2018 and 2017

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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, 2018 and 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 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, 2018 and 2017, 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 26, 2019, 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 26, 2019

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF NET POSITION
December 31, 2018 and 2017

	2018	2017
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 1,164,494	\$ 1,164,812
Accounts Receivable (Net)	139,341	113,871
Interest Receivable	1,120	48
Prepaid Expenses	11,659	9,536
Total Current Assets	\$ 1,316,614	\$ 1,288,267
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 1,230,002	\$ 1,108,820
Interest Receivable	52	51
Capital Assets (Net)	8,481,336	8,490,275
Total Noncurrent Assets	\$ 9,711,390	\$ 9,599,146
Total Assets	\$ 11,028,004	\$ 10,887,413
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 149,507	\$ 116,707
Construction Retainage Payable	21,379	-
Accrued Payroll Taxes/Employee Withholding	1,344	1,231
Utility Tax Payable	3,118	2,650
Sales Tax Payable	153	98
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable - Customer Deposits	3,179	1,665
Accrued Interest Payable - Long Term Debt	26,417	27,177
Revenue Bonds Payable	56,800	56,200
Notes Payable	132,124	129,841
Total Current Liabilities	\$ 394,021	\$ 335,569
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 1,284,000	\$ 1,340,800
Notes Payable	2,621,111	2,753,234
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	133,239	129,354
Total Noncurrent Liabilities	\$ 4,038,350	\$ 4,223,388
Total Liabilities	\$ 4,432,371	\$ 4,558,957
NET POSITION		
Net Investment in Capital Assets	\$ 4,387,301	\$ 4,210,200
Restricted for Capital Projects	108,152	153,966
Restricted for Debt Service	962,246	798,374
Unrestricted	1,137,934	1,165,916
Total Net Position	\$ 6,595,633	\$ 6,328,456

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 1,303,522	\$ 1,107,280
Total Charges for Services	<u>\$ 1,303,522</u>	<u>\$ 1,107,280</u>
Other Charges and Miscellaneous:		
Forfeited Discounts & Service Charges	\$ 39,066	\$ 33,187
Miscellaneous	-	521
Total Other Charges and Miscellaneous	<u>\$ 39,066</u>	<u>\$ 33,708</u>
Total Operating Revenues	<u>\$ 1,342,588</u>	<u>\$ 1,140,988</u>
Operating Expenses:		
Commissioner Fees	\$ 13,100	\$ 13,200
Contractual Service	235,896	236,792
Insurance	18,292	16,555
Maintenance of Mains	22,672	23,725
Miscellaneous	4,305	2,928
Office Supplies and Expense	19,990	18,452
Other Interest Expense	3,660	1,822
Payroll Taxes	1,263	1,273
Professional Services	23,076	31,704
Purchased Water	427,056	462,641
Purchased Power	29,616	29,703
Regulatory Fees	2,300	2,241
Rental of Building	30,000	28,000
Rental of Equipment	45,427	38,192
Depreciation Expense	215,953	194,039
Total Operating Expenses	<u>\$ 1,092,606</u>	<u>\$ 1,101,267</u>
Net Operating Income	<u>\$ 249,982</u>	<u>\$ 39,721</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 10,267	\$ 6,010
Interest Expense	(111,517)	(80,951)
Gain (Loss) on Sale/Abandonment of Fixed Assets	-	(43,023)
Total Nonoperating Revenue (Expense)	<u>\$ (101,250)</u>	<u>\$ (117,964)</u>
Net Income Before Contributions	<u>\$ 148,732</u>	<u>\$ (78,243)</u>
Capital Contributions	118,445	24,480
Net Income	<u>\$ 267,177</u>	<u>\$ (53,763)</u>
Net Position--Beginning of Year	<u>6,328,456</u>	<u>6,382,219</u>
Net Position--End of Year	<u>\$ 6,595,633</u>	<u>\$ 6,328,456</u>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,317,118	\$ 1,148,321
Payments to Suppliers	(830,201)	(880,874)
Payments to Employees	(15,775)	(15,425)
Other Receipts (Payments)	6,035	5,442
Net Cash Provided (Used) by Operating Activities	\$ 477,177	\$ 257,464
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 118,445	\$ 24,480
Purchase of Capital Assets	(185,635)	(1,780,337)
Capitalized Interest Paid	-	(13,024)
Cost to Dispose of Capital Assets	-	(25,264)
Note Proceeds	-	1,721,905
Principal Paid on Long Term Debt	(186,040)	(107,059)
Interest Paid on Long Term Debt	(112,277)	(79,371)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (365,507)	\$ (258,670)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash Withdrawn From [Invested in] Certificates of Deposit	\$ (3,324)	\$ (2,812)
Interest Received	10,267	6,010
Net Cash Provided (Used) by Investing Activities	\$ 6,943	\$ 3,198
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 118,613	\$ 1,992
Balances-Beginning of the Year	1,956,731	1,954,739
Balances-End of the Year	\$ 2,075,344	\$ 1,956,731

	Balances Per December 31, 2018 Statement of Net Position	Balances Per December 31, 2018 Statement of Cash Flows
Cash	\$ 1,018,513	\$ 1,018,513
Time Deposits	145,981	-
Restricted Cash	1,056,831	1,056,831
Restricted Time Deposits	173,171	-
Total Cash and Cash Equivalents, End of Year	\$ 2,394,496	\$ 2,075,344

	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

(Continued)

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 249,982	\$ 39,721
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	215,953	194,039
Change in Assets and Liabilities:		
Receivables, Net	(25,470)	7,333
Prepaid Expenses	(2,123)	(120)
Accounts and Other Payables	32,800	11,049
Accrued Expenses	2,150	1,337
Customer Meter Deposits Payable	3,885	4,105
Net Cash Provided by Operating Activities	\$ 477,177	\$ 257,464

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2018 and 2017, U.S. 60 Water District of Shelby and Franklin Counties had \$21,379 and \$0 construction or retainage payable, respectively.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018 and 2017

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. \$80,000 and \$0 in grant funds were received by the District for the years ended December 31, 2018 and 2017, respectively. Tap-on fees of \$38,445 and \$24,480 were received by the District for the years ended December 31, 2018 and 2017, 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:

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS (Continued)

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

During the years ended December 31, 2018 and 2017, sufficient transfers were made to the sinking fund account but were not computed in accordance with the debt agreement.

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, 2018 and 2017, 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 and B15-007 required balance at December 31, 2018 and 2017. The KIA Loan B15-007 had not closed as December 31, 2017 and therefore transfers for this loan did not occur in 2017.

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, 2018 and 2017, \$247,474 and \$138,469, 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, 2018 and 2017**

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, 2018, in accordance with the District's policy, \$1,012,237 of the District's deposits were covered by federal depository insurance and \$1,386,357 were collateralized by securities held by the pledging financial institutions' agent in the District's name. 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. Thus the District had no deposits that were exposed to custodial credit risk at December 31, 2018 and 2017.

Cash and cash equivalents consisted of the following:

December 31, 2018

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 1,156,446	\$ 1,152,348
Time and Savings	1,242,148	1,242,148
Total Deposits	<u>\$ 2,398,594</u>	<u>\$ 2,394,496</u>

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	<u>\$ 2,276,888</u>	<u>\$ 2,273,632</u>

Reconciliation to Statement of Net Position:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unrestricted Cash, Including Time Deposits	\$ 1,164,494	\$ 1,164,812
Restricted Cash, Including Time Deposits	1,230,002	1,108,820
	<u>\$ 2,394,496</u>	<u>\$ 2,273,632</u>

NOTE 4 – RESTRICTED ASSETS

Restricted cash and time deposits consist of the following:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Bond and Interest Sinking Accounts	\$ 452,197	\$ 406,613
Depreciation Accounts	536,414	418,887
Customer Deposits	133,239	129,354
Construction Accounts	108,152	153,966
Total	<u>\$ 1,230,002</u>	<u>\$ 1,108,820</u>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017

NOTE 4 – RESTRICTED ASSETS (Continued)

Restricted receivables consist of the following:

	December 31, 2018	December 31, 2017
Interest Receivable	\$ 52	\$ 51

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$27,228 and \$24,404 at December 31, 2018 and 2017, 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 \$40,099 and \$31,399 is included in accounts receivable at December 31, 2018 and 2017, respectively.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2018 and 2017, was as follows:

	Balance at January 1, 2018	Additions	Disposals	Balance at December 31, 2018
Structures & Improvements	\$ 24,234	\$ -	\$ -	\$ 24,234
Distribution System	12,334,483	59,820	(8,030)	12,386,273
Machinery & Equipment	414,287	-	-	414,287
Construction in Process	-	147,194	-	147,194
Totals at Historical Cost	\$ 12,773,004	\$ 207,014	\$ (8,030)	\$ 12,971,988
Less: Accumulated Depreciation				
Structures & Improvements	\$ (23,621)	\$ (254)	\$ -	\$ (23,875)
Distribution System	(4,067,217)	(203,072)	8,030	(4,262,259)
Machinery & Equipment	(191,891)	(12,627)	-	(204,518)
Total Accumulated Depreciation	\$ (4,282,729)	\$ (215,953)	\$ 8,030	\$ (4,490,652)
Capital Assets, Net	\$ 8,490,275	\$ (8,939)	\$ -	\$ 8,481,336

	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

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017

NOTE 6 – CAPITAL ASSETS (Continued)

Included under the District's capital assets were \$534,341 and \$542,371 of fully depreciated assets at December 31, 2018 and 2017, respectively. Construction in process is not depreciated.

Depreciation expense for 2018 and 2017 was \$215,953 and \$194,039, 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, 2018 and 2017, accrued interest on customer deposits was \$3,179 and \$1,665, 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, 2018 and 2017, long-term debt payable consisted of the following:

Bonds Payable:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
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.	\$ 332,100	\$ 342,200
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.	128,700	130,800
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.	550,000	559,000
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.	330,000	365,000
Total Bonds Payable	<u>\$ 1,340,800</u>	<u>\$ 1,397,000</u>
Current Portion	\$ 56,800	\$ 56,200
Noncurrent Portion	1,284,000	1,340,800
Total Bonds Payable	<u>\$ 1,340,800</u>	<u>\$ 1,397,000</u>

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017**

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, 2018 are as follows:

	Principal	Interest	Total
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	66,400	46,534	112,934
2024-2028	262,200	199,204	461,404
2029-2033	230,900	150,434	381,334
2034-2038	236,900	99,153	336,053
2039-2043	156,500	53,965	210,465
2044-2047	153,200	14,528	167,728
	<u>\$ 1,340,800</u>	<u>\$ 770,986</u>	<u>\$ 2,111,786</u>

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

	Principal	Interest	Total
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>

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017**

NOTE 8 – LONG-TERM DEBT (Continued)

Notes Payable:

	<u>December 31, 2018</u>	<u>December 31, 2017</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.	\$ 1,103,924	\$ 1,161,170
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.	1,649,311	1,721,905
Total Notes Payable	<u>\$ 2,753,235</u>	<u>\$ 2,883,075</u>
Current Portion	\$ 132,124	\$ 129,841
Noncurrent Portion	2,621,111	2,753,234
Total Notes Payable	<u>\$ 2,753,235</u>	<u>\$ 2,883,075</u>

The annual requirements for all notes payable outstanding at December 31, 2018 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Total</u>
2019	\$ 132,124	\$ 47,606	\$ 5,441	\$ 185,171
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	141,660	38,069	4,351	184,080
2024-2028	746,538	152,110	17,384	916,032
2029-2033	814,492	84,155	9,618	908,265
2034-2037	507,952	17,671	2,020	527,643
	<u>\$ 2,753,235</u>	<u>\$ 468,332</u>	<u>\$ 53,524</u>	<u>\$ 3,275,091</u>

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
	<u>\$ 2,883,075</u>	<u>\$ 518,447</u>	<u>\$ 59,225</u>	<u>\$ 3,460,747</u>

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017**

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, 2018.

	<u>Balance at January 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2018</u>	<u>Current Portion</u>
Revenue Bonds Payable	\$ 1,397,000	\$ -	\$ 56,200	\$ 1,340,800	\$ 56,800
Notes Payable	2,883,075	-	129,840	2,753,235	132,124
Total Long-Term Debt	<u>\$ 4,280,075</u>	<u>\$ -</u>	<u>\$ 186,040</u>	<u>\$ 4,094,035</u>	<u>\$ 188,924</u>

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

	<u>Balance at January 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2017</u>	<u>Current Portion</u>
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	<u>\$ 2,665,229</u>	<u>\$ 1,721,905</u>	<u>\$ 107,059</u>	<u>\$ 4,280,075</u>	<u>\$ 186,041</u>

The annual requirements for all long-term debt outstanding at December 31, 2018 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Total</u>
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	208,060	84,603	4,351	297,014
2024-2028	1,008,738	351,314	17,384	1,377,436
2029-2033	1,045,393	234,589	9,618	1,289,600
2034-2038	744,852	116,824	2,020	863,696
2039-2043	156,500	53,965	-	210,465
2044-2047	153,200	14,528	-	167,728
	<u>\$ 4,094,035</u>	<u>\$ 1,239,318</u>	<u>\$ 53,524</u>	<u>\$ 5,386,877</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Total</u>
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
	<u>\$ 4,280,075</u>	<u>\$ 1,345,895</u>	<u>\$ 59,225</u>	<u>\$ 5,685,195</u>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017

NOTE 9 – INTEREST EXPENSE

Interest expense incurred for the year ended December 31, 2018 and 2017 was \$115,117 and \$82,773, respectively. Interest of \$0 and \$13,024 was capitalized in 2018 and 2017, respectively.

NOTE 10 – FUND EQUITY – RESTRICTED NET POSITION

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Restricted for Capital Projects:		
Monies Restricted for Construction	\$ 108,152	\$ 153,966
Total Restricted for Capital Projects	<u>\$ 108,152</u>	<u>\$ 153,966</u>
Restricted for Debt Service:		
Revenue Bonds of 1998, 2008A, 2008B, & 2013B and KIA Note Payable B14-003 and B15-007.		
Cash	\$ 988,611	\$ 825,500
Add: Accrued Interest Receivable	52	51
Less: Accrued Interest Payable	(26,417)	(27,177)
Total Restricted for Debt Service	<u>\$ 962,246</u>	<u>\$ 798,374</u>

NOTE 11 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$6,370 and \$8,887 at December 31, 2018 and 2017, 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 65.3% and 90.05% of the water it sold from Frankfort Electric and Water Plant Board for the years ended December 31, 2018 and 2017, respectively. The District purchased all remaining water from Shelbyville Municipal Water. The District began purchasing increased quantities of water from Shelbyville Municipal Water beginning in May 2017. For the year ended December 31, 2018 and 2017, respectively, the District purchased 34.7% and 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 \$308,685 and \$285,669 for the years ended December 31, 2018 and 2017, respectively. There were amounts payable to North Shelby Water Company in the amount of \$59,218 and \$25,005 at December 31, 2018 and 2017, respectively. At December 31, 2018 two months were payable to North Shelby Water Company. 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.

NOTE 15 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

The Kentucky Highway 151 project of U.S. 60 Water District of Shelby and Franklin Counties was not complete as of December 31, 2018. Completion is expected in Spring 2019.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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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, 2018, 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 26, 2019.

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 as Items 2018-001 and 2018-002 that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether U.S. 60 Water District of Shelby and Franklin Counties' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

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

U.S. 60 Water District of Shelby and Franklin Counties' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. U.S. 60 Water District of Shelby and Franklin Counties' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Raisor, Zapp & Woods, PSC

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

March 26, 2019

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2018

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 2018-001 and 2018-002 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

2018-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

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.

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, 2017 as Item 2017-001.

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 incorrectly billed during the year for expenses that were incorrectly calculated on the joint contract bill with North Shelby Water Company. Water rate increases were not implemented timely resulting in underbilling of customers. Sales tax was inappropriately paid on expenditures of the District.

RECOMMENDATION:

Management should strive to provide cross-training for administrative staff and implement checking processes. The District should maintain all documentation. The District should review operation and maintenance contract billings and request backup documentation if necessary. All rate increases should be explicitly discussed as to implementation date and communicated to appropriate personnel. The District should provide oversight of all functions both internal and outsourced.

VIEWS OF RESPONSIBLE OFFICIALS:

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, 2018**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL (Continued)

**2018-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED
NOTE DISCLOSURES**

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.

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, 2017 as Item 2017-002.

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.

VIEWS OF RESPONSIBLE OFFICIALS:

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