

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

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

At December 31, 2019 and 2018

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

Years Ended December 31, 2019 and 2018

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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, 2019 and 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 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, 2019 and 2018, 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 27, 2020, 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 27, 2020

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF NET POSITION
December 31, 2019 and 2018

	2019	2018
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 1,169,230	\$ 1,164,494
Accounts Receivable (Net)	152,206	139,341
Other Receivables	2,141	-
Interest Receivable	857	1,120
Prepaid Expenses	11,966	11,659
Total Current Assets	\$ 1,336,400	\$ 1,316,614
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 1,421,303	\$ 1,230,002
Interest Receivable	79	52
Capital Assets (Net)	8,538,561	8,481,336
Total Noncurrent Assets	\$ 9,959,943	\$ 9,711,390
Total Assets	\$ 11,296,343	\$ 11,028,004
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 92,899	\$ 149,507
Construction Retainage Payable	14,775	21,379
Accrued Payroll Taxes/Employee Withholding	1,017	1,344
Utility Tax Payable	3,379	3,118
Sales Tax Payable	295	153
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable - Customer Deposits	3,248	3,179
Accrued Interest Payable - Long Term Debt	25,475	26,417
Revenue Bonds Payable	58,300	56,800
Notes Payable	134,446	132,124
Total Current Liabilities	\$ 333,834	\$ 394,021
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 1,225,700	\$ 1,284,000
Notes Payable	2,486,665	2,621,111
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	135,310	133,239
Total Noncurrent Liabilities	\$ 3,847,675	\$ 4,038,350
Total Liabilities	\$ 4,181,509	\$ 4,432,371
NET POSITION		
Net Investment in Capital Assets	\$ 4,633,450	\$ 4,387,301
Restricted for Capital Projects	113,462	108,152
Restricted for Debt Service	1,147,135	962,246
Unrestricted	1,220,787	1,137,934
Total Net Position	\$ 7,114,834	\$ 6,595,633

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, 2019 and 2018

	2019	2018
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 1,442,973	\$ 1,303,522
Total Charges for Services	\$ 1,442,973	\$ 1,303,522
Other Charges and Miscellaneous:		
Forfeited Discounts & Service Charges	\$ 41,914	\$ 39,066
Miscellaneous	125	-
Total Other Charges and Miscellaneous	\$ 42,039	\$ 39,066
Total Operating Revenues	\$ 1,485,012	\$ 1,342,588
Operating Expenses:		
Commissioner Fees	\$ 12,700	\$ 13,100
Contractual Service	260,696	235,896
Insurance	18,833	18,292
Maintenance of Mains	26,046	22,672
Miscellaneous	4,895	4,305
Office Supplies and Expense	11,625	19,990
Other Interest Expense	3,809	3,660
Payroll Taxes	1,028	1,263
Professional Services	23,059	23,076
Purchased Water	451,488	427,056
Purchased Power	29,081	29,616
Regulatory Fees	2,638	2,300
Rental of Building	30,000	30,000
Rental of Equipment	47,629	45,427
Depreciation Expense	220,101	215,953
Total Operating Expenses	\$ 1,143,628	\$ 1,092,606
Net Operating Income	\$ 341,384	\$ 249,982
Nonoperating Revenue (Expense):		
Investment Income	\$ 24,015	\$ 10,267
Interest Expense	(107,033)	(111,517)
Total Nonoperating Revenue (Expense)	\$ (83,018)	\$ (101,250)
Net Income Before Contributions	\$ 258,366	\$ 148,732
Capital Contributions	260,835	118,445
Net Income	\$ 519,201	\$ 267,177
Net Position--Beginning of Year	6,595,633	6,328,456
Net Position--End of Year	\$ 7,114,834	\$ 6,595,633

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,470,006	\$ 1,317,118
Payments to Suppliers	(967,742)	(830,201)
Payments to Employees	(12,700)	(15,775)
Other Receipts (Payments)	2,216	6,035
Net Cash Provided (Used) by Operating Activities	\$ 491,780	\$ 477,177
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 260,835	\$ 118,445
Purchase of Capital Assets	(283,930)	(185,635)
Principal Paid on Long Term Debt	(188,924)	(186,040)
Interest Paid on Long Term Debt	(107,975)	(112,277)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (319,994)	\$ (365,507)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash Withdrawn From [Invested in] Certificates of Deposit	\$ (4,961)	\$ (3,324)
Interest Received	24,251	10,267
Net Cash Provided (Used) by Investing Activities	\$ 19,290	\$ 6,943
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 191,076	\$ 118,613
Balances-Beginning of the Year	2,075,344	1,956,731
Balances-End of the Year	\$ 2,266,420	\$ 2,075,344

	Balances Per December 31, 2019 Statement of Net Position	Balances Per December 31, 2019 Statement of Cash Flows
Cash	\$ 1,020,314	\$ 1,020,314
Time Deposits	148,916	-
Restricted Cash	1,246,106	1,246,106
Restricted Time Deposits	175,197	-
Total Cash and Cash Equivalents, End of Year	\$ 2,590,533	\$ 2,266,420

	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

(Continued)

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	2019	2018
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 341,384	\$ 249,982
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	220,101	215,953
Change in Assets and Liabilities:		
Receivables, Net	(15,006)	(25,470)
Prepaid Expenses	(307)	(2,123)
Accounts and Other Payables	(56,608)	32,800
Accrued Expenses	145	2,150
Customer Meter Deposits Payable	2,071	3,885
Net Cash Provided by Operating Activities	\$ 491,780	\$ 477,177

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2019 and 2018, U.S. 60 Water District of Shelby and Franklin Counties had \$14,775 and \$21,379 construction retainage payable, respectively.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2019 and 2018

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. Restricted amounts are considered to have been spent when an expense is incurred for the purpose of such classifications.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

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. \$0 and \$80,000 in grant funds were received by the District for the years ended December 31, 2019 and 2018, respectively. Tap-on fees of \$29,708 and \$38,445 were received by the District for the years ended December 31, 2019 and 2018, respectively.

Customer capital contributions of \$231,127 and \$0 were received by the Water District for the years ended December 31, 2019 and 2018, respectively, for hydrants and line extensions.

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, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018.

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, 2019 and 2018, \$372,842 and \$247,474, 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, 2019 and 2018**

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, 2019, in accordance with the District's policy, \$2,299,580 of the District's deposits were covered by federal depository insurance and \$333,090 were collateralized by securities held by the pledging financial institutions' agent in the District's name. 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. Thus the District had no deposits that were exposed to custodial credit risk at December 31, 2019 and 2018.

Cash and cash equivalents consisted of the following:

December 31, 2019

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 60,011	\$ 17,874
Time and Savings	2,572,659	2,572,659
Total Deposits	<u>\$ 2,632,670</u>	<u>\$ 2,590,533</u>

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>

Reconciliation to Statement of Net Position:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Unrestricted Cash, Including Time Deposits	\$ 1,169,230	\$ 1,164,494
Restricted Cash, Including Time Deposits	1,421,303	1,230,002
	<u>\$ 2,590,533</u>	<u>\$ 2,394,496</u>

NOTE 4 – RESTRICTED ASSETS

Restricted cash and time deposits consist of the following:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Bond and Interest Sinking Accounts	\$ 501,063	\$ 452,197
Depreciation Accounts	671,468	536,414
Customer Deposits	135,310	133,239
Construction Accounts	113,462	108,152
Total	<u>\$ 1,421,303</u>	<u>\$ 1,230,002</u>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 4 – RESTRICTED ASSETS (Continued)

Restricted receivables consist of the following:

	December 31, 2019	December 31, 2018
Interest Receivable	\$ 79	\$ 52

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$26,725 and \$27,228 at December 31, 2019 and 2018, 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 \$36,776 and \$40,099 is included in accounts receivable at December 31, 2019 and 2018, respectively.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2019 and 2018, was as follows:

	Balance at January 1, 2019	Additions	Disposals	Balance at December 31, 2019
Structures & Improvements	\$ 24,234	\$ -	\$ -	\$ 24,234
Distribution System	12,386,273	415,885	(9,677)	12,792,481
Machinery & Equipment	414,287	-	-	414,287
Construction in Process	147,194	233,443	(372,002)	8,635
Totals at Historical Cost	\$ 12,971,988	\$ 649,328	\$ (381,679)	\$ 13,239,637
Less: Accumulated Depreciation				
Structures & Improvements	\$ (23,875)	\$ (239)	\$ -	\$ (24,114)
Distribution System	(4,262,259)	(207,234)	9,677	(4,459,816)
Machinery & Equipment	(204,518)	(12,628)	-	(217,146)
Total Accumulated Depreciation	\$ (4,490,652)	\$ (220,101)	\$ 9,677	\$ (4,701,076)
Capital Assets, Net	\$ 8,481,336	\$ 429,227	\$ (372,002)	\$ 8,538,561

	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

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

NOTE 6 – CAPITAL ASSETS (Continued)

Included under the District's capital assets were \$549,203 and \$534,341 of fully depreciated assets at December 31, 2019 and 2018, respectively. Construction in process is not depreciated.

Depreciation expense for 2019 and 2018 was \$220,101 and \$215,953, 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, 2019 and 2018, accrued interest on customer deposits was \$3,248 and \$3,179, 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, 2019 and 2018, long-term debt payable consisted of the following:

Bonds Payable:

	<u>December 31, 2019</u>	<u>December 31, 2018</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.	\$ 321,500	\$ 332,100
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.	126,500	128,700
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.	541,000	550,000
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.	295,000	330,000
Total Bonds Payable	<u>\$ 1,284,000</u>	<u>\$ 1,340,800</u>
Current Portion	\$ 58,300	\$ 56,800
Noncurrent Portion	1,225,700	1,284,000
Total Bonds Payable	<u>\$ 1,284,000</u>	<u>\$ 1,340,800</u>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

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, 2019 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	67,900	44,152	112,052
2025-2029	239,200	189,181	428,381
2030-2034	229,800	140,345	370,145
2035-2039	221,500	88,710	310,210
2040-2044	163,800	46,595	210,395
2045-2047	117,500	8,301	125,801
	<u>\$ 1,284,000</u>	<u>\$ 716,309</u>	<u>\$ 2,000,309</u>

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

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

If there is any default in the payment of the principal of or interest on any of the Bonds, then upon the filing of suit by any holder of said Bonds, any court having jurisdiction of the action may appoint a receiver to administer the System on behalf of the District, with power to charge and collect rates sufficient to provide for the payment of any bonds or obligations outstanding against the System, and for the payment of current expenses, and to apply the revenues in conformity with the bond resolutions and the provisions of the statute laws of Kentucky.

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

NOTE 8 – LONG-TERM DEBT (Continued)

Notes Payable:

	<u>December 31, 2019</u>	<u>December 31, 2018</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.	\$ 1,045,670	\$ 1,103,924
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.	1,575,441	1,649,311
Total Notes Payable	<u>\$ 2,621,111</u>	<u>\$ 2,753,235</u>
Current Portion	\$ 134,446	\$ 132,124
Noncurrent Portion	2,486,665	2,621,111
Total Notes Payable	<u>\$ 2,621,111</u>	<u>\$ 2,753,235</u>

Upon the occurrence of an event of default, the Kentucky Infrastructure Authority shall be entitled to the appointment of a receiver of the System and all receipts therefrom. The Kentucky Infrastructure Authority may pursue any available remedy to enforce payment obligations or to remedy any event of default. In the event that the District defaults, the defaulting party also agrees to pay the fees of such attorneys and other expenses incurred by the Kentucky Infrastructure Authority.

The annual requirements for all notes payable outstanding at December 31, 2019 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Total</u>
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	144,150	35,579	4,066	183,795
2025-2029	759,659	138,989	15,885	914,533
2030-2034	828,809	69,839	7,982	906,630
2035-2037	336,364	9,529	1,089	346,982
	<u>\$ 2,621,111</u>	<u>\$ 420,726</u>	<u>\$ 48,083</u>	<u>\$ 3,089,920</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>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018

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, 2019.

	<u>Balance at January 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2019</u>	<u>Current Portion</u>
Revenue Bonds Payable	\$ 1,340,800	\$ -	\$ 56,800	\$ 1,284,000	\$ 58,300
Notes Payable	2,753,235	-	132,124	2,621,111	134,446
Total Long-Term Debt	<u>\$ 4,094,035</u>	<u>\$ -</u>	<u>\$ 188,924</u>	<u>\$ 3,905,111</u>	<u>\$ 192,746</u>

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 annual requirements for all long-term debt outstanding at December 31, 2019 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Total</u>
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	212,050	79,731	4,066	295,847
2025-2029	998,859	328,170	15,885	1,342,914
2030-2034	1,058,609	210,184	7,982	1,276,775
2035-2039	557,864	98,239	1,089	657,192
2040-2044	163,800	46,595	-	210,395
2045-2047	117,500	8,301	-	125,801
	<u>\$ 3,905,111</u>	<u>\$ 1,137,035</u>	<u>\$ 48,083</u>	<u>\$ 5,090,229</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>

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019 and 2018**

NOTE 9 – INTEREST EXPENSE

Interest expense incurred for the year ended December 31, 2019 and 2018 was \$110,842 and \$115,177, respectively. No interest was capitalized in 2019 or 2018.

NOTE 10 – FUND EQUITY – RESTRICTED NET POSITION

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Restricted for Capital Projects:		
Monies Restricted for Construction	\$ 113,462	\$ 108,152
Total Restricted for Capital Projects	\$ 113,462	\$ 108,152
 Restricted for Debt Service:		
Revenue Bonds of 1998, 2008A, 2008B, & 2013B and KIA Note Payable B14-003 and B15-007.		
Cash	\$ 1,172,531	\$ 988,611
Add: Accrued Interest Receivable	79	52
Less: Accrued Interest Payable	(25,475)	(26,417)
Total Restricted for Debt Service	\$ 1,147,135	\$ 962,246

NOTE 11 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$305 and \$6,370 at December 31, 2019 and 2018, 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 38.3% and 65.3% of the water it sold from Frankfort Electric and Water Plant Board for the years ended December 31, 2019 and 2018, respectively. The District began purchasing increased quantities of water from Shelbyville Municipal Water beginning in May 2017. For the year ended December 31, 2019 and 2018, respectively, the District purchased 61.7% and 34.7% 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 \$341,380 and \$308,685 for the years ended December 31, 2019 and 2018, respectively. There were amounts payable to North Shelby Water Company in the amount of \$27,952 and \$59,218 at December 31, 2019 and 2018, respectively. At December 31, 2018 two months were payable to North Shelby Water Company.

NOTE 15 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

In March, 2020 significant steps were taken by the federal and state governments to limit the effect of the COVID-19 virus. The immediate and long term impact that such decisions may have on the financial position of the District is unknown at this time.

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, 2019, 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 27, 2020.

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 2019-001 and 2019-002 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

PURPOSE OF THIS REPORT

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

Raisor, Zapp & Woods PSC

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

March 27, 2020

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2019

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 2019-001 and 2019-002 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

2019-001 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, 2018 as Item 2018-001.

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.

RECOMMENDATION:

Management should strive to provide cross-training for administrative staff and implement checking processes. The District should maintain all documentation including but not limited to all construction project documentation. The District should provide oversight of all functions both internal and outsourced.

VIEWES 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 will strive to maintain all documentation for construction projects.

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2019**

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL (Continued)

**2019-002 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, 2018 as Item 2018-002.

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