

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

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

At December 31, 2023 and 2022

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

Years Ended December 31, 2023 and 2022

TABLE OF CONTENTS

Independent Auditor's Report	1-2
Basic Financial Statements:	
Statement of Net Position	3
Statement of Revenues, Expenses, and Changes in Fund Net Position	4
Statement of Cash Flows	5-6
Notes to Basic Financial Statements	7-15
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	16-17
Schedule of Findings and Responses	18-19

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

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, 2023 and 2022, 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.

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, 2023 and 2022, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the U.S. 60 Water District of Shelby and Franklin Counties and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the U.S. 60 Water District of Shelby and Franklin Counties' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

**Commissioners of the
U.S. 60 Water District of Shelby and Franklin Counties
Page Two**

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 U.S. 60 Water District of Shelby and Franklin Counties' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the U.S. 60 Water District of Shelby and Franklin Counties' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 November 19, 2024, 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 U.S. 60 Water District of Shelby and Franklin Counties' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering U.S. 60 Water District of Shelby and Franklin Counties' internal control over financial reporting and compliance.

Raisor, Zapp & Woods PSC

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

November 19, 2024

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF NET POSITION
December 31, 2023 and 2022

	2023	2022
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 1,183,376	\$ 1,183,614
Accounts Receivable (Net)	162,118	169,978
Inventory	-	134,315
Prepaid Expenses	18,013	12,030
Total Current Assets	\$ 1,363,507	\$ 1,499,937
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 1,791,474	\$ 1,905,740
Capital Assets (Net)	8,890,154	8,387,689
Total Noncurrent Assets	\$ 10,681,628	\$ 10,293,429
Total Assets	\$ 12,045,135	\$ 11,793,366
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 121,101	\$ 104,483
Accounts Payable - Construction	63,044	31,550
Accrued Payroll Taxes/Employee Withholding	1,132	1,211
Utility Tax Payable	3,549	5,273
Sales Tax Payable	1,233	437
Funds Held for Future Lines	-	465,000
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable - Customer Deposits	5,359	6,436
Accrued Interest Payable - Long Term Debt	4,455	5,045
Revenue Bonds Payable	40,000	40,000
Notes Payable	144,150	141,660
Total Current Liabilities	\$ 384,023	\$ 801,095
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 110,000	\$ 150,000
Notes Payable	1,924,833	2,068,983
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	148,759	148,299
Total Noncurrent Liabilities	\$ 2,183,592	\$ 2,367,282
Total Liabilities	\$ 2,567,615	\$ 3,168,377
NET POSITION		
Net Investment in Capital Assets	\$ 6,671,171	\$ 5,955,496
Restricted for Debt Service	1,638,260	1,287,396
Unrestricted	1,168,089	1,382,097
Total Net Position	\$ 9,477,520	\$ 8,624,989

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, 2023 and 2022

	2023	2022
Operating Revenues:		
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 1,537,293	\$ 1,513,159
Total Charges for Services	\$ 1,537,293	\$ 1,513,159
Other Charges and Miscellaneous:		
Forfeited Discounts & Service Charges	\$ 29,918	\$ 33,009
Miscellaneous	7,361	2,944
Total Other Charges and Miscellaneous	\$ 37,279	\$ 35,953
Total Operating Revenues	\$ 1,574,572	\$ 1,549,112
Operating Expenses:		
Commissioner Fees	\$ 20,000	\$ 19,500
Contractual Service	267,739	269,286
Insurance	25,159	22,161
Maintenance of Mains	60,111	12,756
Miscellaneous	6,760	5,668
Office Supplies and Expense	25,096	20,181
Other Interest Expense	5,998	6,452
Payroll Taxes	1,533	1,492
Professional Services	30,369	24,346
Purchased Water	473,025	442,842
Purchased Power	29,763	26,534
Regulatory Fees	2,017	2,283
Rental of Building	30,000	30,000
Rental of Equipment	71,281	59,330
Depreciation Expense	230,650	226,588
Total Operating Expenses	\$ 1,279,501	\$ 1,169,419
Net Operating Income	\$ 295,071	\$ 379,693
Nonoperating Revenue (Expense):		
Investment Income	\$ 111,930	\$ 22,397
Interest Expense	(46,793)	(51,181)
Total Nonoperating Revenue (Expense)	\$ 65,137	\$ (28,784)
Net Income Before Contributions	\$ 360,208	\$ 350,909
Capital Contributions	492,323	484,583
Net Income	\$ 852,531	\$ 835,492
Net Position--Beginning of Year	8,624,989	7,789,497
Net Position--End of Year	\$ 9,477,520	\$ 8,624,989

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,582,432	\$ 1,540,023
Payments to Suppliers	(877,903)	(1,042,105)
Payments to Employees	(20,000)	(19,500)
Other Receipts (Payments)	(7,622)	11,576
Net Cash Provided (Used) by Operating Activities	\$ 676,907	\$ 489,994
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 90,191	\$ 949,583
Refund of Capital Contributions	(62,868)	-
Purchase of Capital Assets	(701,621)	(389,104)
Principal Paid on Long Term Debt	(181,660)	(174,213)
Interest Paid on Long Term Debt	(47,383)	(51,719)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (903,341)	\$ 334,547
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Cash Withdrawn From [Invested in] Certificates of Deposit	\$ (589)	\$ (772)
Interest Received	111,930	22,397
Net Cash Provided (Used) by Investing Activities	\$ 111,341	\$ 21,625
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (115,093)	\$ 846,166
Balances-Beginning of the Year	2,780,722	1,934,556
Balances-End of the Year	\$ 2,665,629	\$ 2,780,722

	Balances Per December 31, 2023 Statement of Net Position	Balances Per December 31, 2023 Statement of Cash Flows
Cash	\$ 874,155	\$ 874,155
Time Deposits	309,221	-
Restricted Cash	1,791,474	1,791,474
Total Cash and Cash Equivalents, End of Year	\$ 2,974,850	\$ 2,665,629
	Balances Per December 31, 2022 Statement of Net Position	Balances Per December 31, 2022 Statement of Cash Flows
Cash	\$ 874,982	\$ 874,982
Time Deposits	308,632	-
Restricted Cash	1,905,740	1,905,740
Total Cash and Cash Equivalents, End of Year	\$ 3,089,354	\$ 2,780,722

(Continued)

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	2023	2022
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 295,071	\$ 379,693
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	230,650	226,588
Change in Assets and Liabilities:		
Receivables, Net	7,860	(9,089)
Inventories	134,315	(134,315)
Prepaid Expenses	(5,983)	(1,067)
Accounts and Other Payables	16,618	16,608
Accrued Expenses	(2,084)	7,382
Customer Meter Deposits Payable	460	4,194
Net Cash Provided by Operating Activities	<u>\$ 676,907</u>	<u>\$ 489,994</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At December 31, 2023 and 2022, U.S. 60 Water District of Shelby and Franklin Counties had \$63,044 and \$31,550, respectively, of accounts payable related to capital projects.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2023 and 2022

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, 2023 and 2022

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

Property and Equipment: Property and equipment purchased or constructed is stated at cost. 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.

Inventory: Inventories are stated at cost based on first in – first out.

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. Tap-on fees of \$33,375 and \$29,550 were received by the District for the years ended December 31, 2023 and 2022, respectively.

Customer capital contributions of \$412,133 and \$355,033 were received by the Water District for the years ended December 31, 2023 and 2022, respectively, for hydrants and line extensions. During 2023, the Water District received \$46,815 of funding from the Kentucky Infrastructure Authority Cleaner Water Grant for the Franklin County Service Area Radio Read Meter Replacement Project. During 2022, the Water District received \$100,000 from Franklin County Fiscal Court for the purchase of radio read meters. At December 31, 2023 and 2022, the District held funds of \$0 and \$465,000, respectively, for extensions that had not been completed.

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.

**U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2023 and 2022**

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. To attain the minimum balance, a monthly transfer must be made as follows:

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

During the years ended December 31, 2023 and 2022, 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:

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

When the required balance of \$92,400 is attained, the monthly transfers may be discontinued but are subject to resumption if the depreciation account is depleted below the required balance. While the depreciation account was fully funded for the years ended December 31, 2023 and 2022, 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 Loans B14-003 and B15-007, the annual replacement cost of \$3,300 and \$5,800, respectively should be added to the replacement account on each December 1 until the balance reaches \$33,000 and \$58,000, respectively, and maintained for the life of the loan. Amounts in the Maintenance and Replacement Reserve may be used for extraordinary maintenance expenses related to the project or for the costs of replacing worn or obsolete portions of the project. If amounts are withdrawn from the Maintenance and Replacement Reserve Fund, the District shall again make the periodic deposits hereinabove required until the 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 maximum required balances in the KIA assistance agreements at December 31, 2023 and 2022.

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, 2023 and 2022, \$1,256,328 and \$926,870, 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, 2023 and 2022

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, 2023, in accordance with the District's policy, \$545,819 of the District's deposits were covered by federal depository insurance and \$2,473,882 were collateralized by securities held by the pledging financial institutions' agent in the District's name. As of December 31, 2022, in accordance with the District's policy, \$544,812 of the District's deposits were covered by federal depository insurance and \$2,545,669 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, 2023 and 2022.

Cash and cash equivalents consisted of the following:

December 31, 2023

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 2,510,198	\$ 2,465,347
Time and Savings	509,503	509,503
Total Deposits	\$ 3,019,701	\$ 2,974,850

December 31, 2022

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 1,345,144	\$ 1,344,017
Time and Savings	1,745,337	1,745,337
Total Deposits	\$ 3,090,481	\$ 3,089,354

Reconciliation to Statement of Net Position:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Unrestricted Cash, Including Time Deposits	\$ 1,183,376	\$ 1,183,614
Restricted Cash, Including Time Deposits	1,791,474	1,905,740
	\$ 2,974,850	\$ 3,089,354

NOTE 4 – RESTRICTED ASSETS

Restricted cash and time deposits consist of the following:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Bond and Interest Sinking Accounts	\$ 45,819	\$ 44,812
Depreciation Accounts	1,596,896	1,247,629
Construction Accounts	-	465,000
Customer Deposits	148,759	148,299
Total	\$ 1,791,474	\$ 1,905,740

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2023 and 2022

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$39,013 and \$30,211 at December 31, 2023 and 2022, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data. There were no amounts formally written off during 2023 or 2022.

Estimated unbilled water service of \$45,058 and \$45,267 is included in accounts receivable at December 31, 2023 and 2022, respectively.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2023 and 2022, was as follows:

	Balance at January 1, 2023	Additions	Disposals	Balance at December 31, 2023
Land	\$ 10,483	\$ -	\$ -	\$ 10,483
Structures & Improvements	24,234	-	-	24,234
Distribution System	13,257,000	495,172	5,385	13,746,787
Machinery & Equipment	414,287	-	-	414,287
Construction in Process	31,550	699,565	461,622	269,493
Totals at Historical Cost	<u>\$ 13,737,554</u>	<u>\$ 1,194,737</u>	<u>\$ 467,007</u>	<u>\$ 14,465,284</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (24,234)	\$ -	\$ -	\$ (24,234)
Distribution System	(5,072,831)	(220,112)	(5,385)	(5,287,558)
Machinery & Equipment	(252,800)	(10,538)	-	(263,338)
Total Accumulated Depreciation	<u>\$ (5,349,865)</u>	<u>\$ (230,650)</u>	<u>\$ (5,385)</u>	<u>\$ (5,575,130)</u>
Capital Assets, Net	<u>\$ 8,387,689</u>	<u>\$ 964,087</u>	<u>\$ 461,622</u>	<u>\$ 8,890,154</u>
	Balance at January 1, 2022	Additions	Disposals	Balance at December 31, 2022
Land	\$ 8,483	\$ 2,000	\$ -	\$ 10,483
Structures & Improvements	24,234	-	-	24,234
Distribution System	12,878,350	389,104	10,454	13,257,000
Machinery & Equipment	414,287	-	-	414,287
Construction in Process	2,000	29,550	-	31,550
Totals at Historical Cost	<u>\$ 13,327,354</u>	<u>\$ 420,654</u>	<u>\$ 10,454</u>	<u>\$ 13,737,554</u>
Less: Accumulated Depreciation				
Structures & Improvements	\$ (24,234)	\$ -	\$ -	\$ (24,234)
Distribution System	(4,867,295)	(215,990)	(10,454)	(5,072,831)
Machinery & Equipment	(242,202)	(10,598)	-	(252,800)
Total Accumulated Depreciation	<u>\$ (5,133,731)</u>	<u>\$ (226,588)</u>	<u>\$ (10,454)</u>	<u>\$ (5,349,865)</u>
Capital Assets, Net	<u>\$ 8,193,623</u>	<u>\$ 194,066</u>	<u>\$ -</u>	<u>\$ 8,387,689</u>

Included under the District's capital assets were \$658,329 and \$617,351 of fully depreciated assets at December 31, 2023 and 2022, respectively. Land and construction in process is not depreciated.

Depreciation expense for 2023 and 2022 was \$230,650 and \$226,588, respectively.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2023 and 2022

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, 2023 and 2022, accrued interest on customer deposits was \$5,359 and \$6,436, 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, 2023 and 2022, long-term debt payable consisted of the following:

Direct Placement and Direct Borrowing Debt

Bonds Payable:

	December 31, 2023	December 31, 2022
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.	\$ 150,000	\$ 190,000
Total Bonds Payable	\$ 150,000	\$ 190,000
Current Portion	\$ 40,000	\$ 40,000
Noncurrent Portion	110,000	150,000
Total Bonds Payable	\$ 150,000	\$ 190,000

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. The final maturity on the 2013B issue is February 1, 2032.

The annual requirements for all bonds payable outstanding at December 31, 2023 are as follows:

	Principal	Interest	Total
2024	\$ 40,000	\$ 4,127	\$ 44,127
2025	40,000	2,933	42,933
2026	10,000	2,170	12,170
2027	10,000	1,852	11,852
2028	10,000	1,523	11,523
2029-2032	40,000	2,758	42,758
	\$ 150,000	\$ 15,363	\$ 165,363

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2023 and 2022

NOTE 8 – LONG-TERM DEBT (Continued)

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.

Notes Payable:

	December 31, 2023	December 31, 2022
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.	\$ 802,237	\$ 864,695
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.	1,266,746	1,345,948
Total Notes Payable	\$ 2,068,983	\$ 2,210,643
Current Portion	\$ 144,150	\$ 141,660
Noncurrent Portion	1,924,833	2,068,983
	\$ 2,068,983	\$ 2,210,643

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, 2023 are as follows:

	Principal	Interest	Service Fees	Total
2024	\$ 144,150	\$ 35,579	\$ 4,066	\$ 183,795
2025	146,684	33,046	3,776	183,506
2026	149,262	30,467	3,482	183,211
2027	151,886	27,844	3,182	182,912
2028	154,555	25,174	2,877	182,606
2029-2033	814,493	84,156	9,618	908,267
2034-2037	507,953	17,671	2,020	527,644
	\$ 2,068,983	\$ 253,937	\$ 29,021	\$ 2,351,941

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2023 and 2022

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, 2023.

	<u>Balance at January 1, 2023</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2023</u>	<u>Current Portion</u>
Revenue Bonds Payable (Direct Placement)	\$ 190,000	\$ -	\$ 40,000	\$ 150,000	\$ 40,000
Notes Payable (Direct Borrowing)	2,210,643	-	141,660	2,068,983	144,150
Total Long-Term Debt	<u>\$ 2,400,643</u>	<u>\$ -</u>	<u>\$ 181,660</u>	<u>\$ 2,218,983</u>	<u>\$ 184,150</u>

The following is a summary of changes in long-term debt for the year ended December 31, 2022.

	<u>Balance at January 1, 2022</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2022</u>	<u>Current Portion</u>
Revenue Bonds Payable (Direct Placement)	\$ 225,000	\$ -	\$ 35,000	\$ 190,000	\$ 40,000
Notes Payable (Direct Borrowing)	2,349,856	-	139,213	2,210,643	141,660
Total Long-Term Debt	<u>\$ 2,574,856</u>	<u>\$ -</u>	<u>\$ 174,213</u>	<u>\$ 2,400,643</u>	<u>\$ 181,660</u>

The annual requirements for all long-term debt outstanding at December 31, 2023 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Service Fees</u>	<u>Total</u>
2024	\$ 184,150	\$ 39,706	\$ 4,066	\$ 227,922
2025	186,684	35,979	3,776	226,439
2026	159,262	32,637	3,482	195,381
2027	161,886	29,696	3,182	194,764
2028	164,555	26,697	2,877	194,129
2029-2033	854,493	86,914	9,618	951,025
2034-2037	507,953	17,671	2,020	527,644
	<u>\$ 2,218,983</u>	<u>\$ 269,300</u>	<u>\$ 29,021</u>	<u>\$ 2,517,304</u>

NOTE 9 – INTEREST EXPENSE

Interest expense incurred for the year ended December 31, 2023 and 2022 was \$52,791 and \$57,633, respectively.

NOTE 10 – FUND EQUITY – RESTRICTED NET POSITION

Restricted for Debt Service:

Revenue Bonds of 1998, 2008A, 2008B, & 2013B and KIA Note Payable B14-003 and B15-007.

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Cash	\$ 1,642,715	\$ 1,292,441
Less: Accrued Interest Payable	(4,455)	(5,045)
Total Restricted for Debt Service	<u>\$ 1,638,260</u>	<u>\$ 1,287,396</u>

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2023 and 2022

NOTE 11 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$8,802 and \$0 at December 31, 2023 and 2022, 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. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 13 – ECONOMIC DEPENDENCY

For the years ended December 31, 2023 and 2022, respectively, the District purchased 91.88% and 83.88% of the water it sold from Shelbyville Municipal Water. The District purchased 8.23% and 16.12% of the water it sold from Frankfort Electric and Water Plant Board for the years ended December 31, 2023 and 2022, respectively.

NOTE 14 – FUNDS HELD FOR FUTURE LINES AND CONTRIBUTED CAPITAL

The District collects funds from developers for their allocable cost of line extensions. The amount is calculated based on the size of the line and the number of estimated hook-ups. As other customers pay to hook-up to the line, portions of these funds are refunded to the developer. Once a line has been completed, the developer's cost of the line is recorded as capital contributions from customers. The District held \$0 and \$465,000 for future lines at both December 31, 2023 and 2022, respectively.

NOTE 15 – 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 \$424,841 and \$401,498 for the years ended December 31, 2023 and 2022, respectively. There were amounts payable to North Shelby Water Company in the amount of \$51,367 and \$39,751 at December 31, 2023 and 2022, respectively.

NOTE 16 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

The District has been approved for funding from USDA Rural Development for \$1,600,000. The 2021 Water System Improvements project includes the complete replacement of the existing Grafenburg Booster Pump Station Replacement, a full-scale rehabilitation of the existing Driscoll Water Storage Tank, and the replacement of approximately 1,000 existing meters with radio read meters. In September 2023, U.S. 60 Water District awarded the contract for the pump station replacement, upgrading 1,000 meters, and piping at the Driscoll tank site to Cumberland Pipeline for \$1,386,743. Also in September 2023, the District awarded the contract for painting of the Driscoll Water Storage Tank to Curren Construction Service for \$243,150. The total budget for the project is \$2,040,000. The project will be financed with funds from the USDA Rural Development loan of \$1,600,000 and the remaining funds will come from the District's own funds. Final completion is expected in the calendar year 2025.

The District has been awarded Cleaner Water Program (CWP) Grants through the Kentucky Infrastructure Authority in the amounts of \$113,084 from the Franklin County allocation and \$650,000 from the Shelby County allocation. The funding from Franklin County will be used to replace radio read meters with the District contributing \$74,416 towards the project. The Franklin County project is currently in the bid process. The funding from Shelby County will be used for the Waddy Water System Improvement Project that is expected to be completed in the calendar year 2025. These funds are provided through the American Rescue Plan Act of 2021 and must be obligated by December 31, 2024 and fully expended by December 31, 2026 or will be forfeited.

Management has considered subsequent events through the date of this report November 19, 2024, for disclosure. No events were identified that would have impacted the financial statements for the year ended December 31, 2023.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of U.S. 60 Water District of Shelby and Franklin Counties as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise U.S. 60 Water District of Shelby and Franklin Counties' basic financial statements, and have issued our report thereon dated November 19, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered U.S. 60 Water District of Shelby and Franklin Counties' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of U.S. 60 Water District of Shelby and Franklin Counties' internal control. Accordingly, we do not express an opinion on the effectiveness of U.S. 60 Water District of Shelby and Franklin Counties' internal control.

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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 and 2023-002 that we consider to be material weaknesses.

**Commissioners of the
U.S. 60 Water District of Shelby and Franklin Counties
Page Two**

Report on 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 financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on the U.S. 60 Water District of Shelby and Franklin Counties' response to the findings identified in our audit and 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 other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

November 19, 2024

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2023

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion whether the financial statements of U.S. 60 Water District of Shelby and Franklin Counties were prepared in accordance with GAAP.
2. Two material weaknesses 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 2023-001 and 2023-002 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

MATERIAL WEAKNESSES

2023-001 SIZE OF ENTITY, CROSS-TRAINING AND CHECKING PROCEDURES

CONDITION:

Due to the size of the entity, cross-training and checking procedures are not in place for certain administrative positions. This limits internal control. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2022 as Item 2022-001.

CRITERIA:

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

CAUSE:

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

EFFECT:

This limitation may affect the ability to timely record, process, summarize and report financial data.

RECOMMENDATION:

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

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.

U.S. 60 WATER DISTRICT OF SHELBY AND FRANKLIN COUNTIES
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended December 31, 2023

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESSES (Continued)

2023-002 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was also cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2022 as Item 2022-002.

CRITERIA:

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

CAUSE:

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

EFFECT:

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

RECOMMENDATION:

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

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