

WEST CARROLL WATER DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

At December 31, 2018 and 2017

**WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017**

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
West Carroll Water District
Carrollton, Kentucky 41008

Report on the Financial Statements

We have audited the accompanying financial statements of West Carroll Water District as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the West Carroll Water District's 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 West Carroll Water District, as of December 31, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2019, on our consideration of the West Carroll Water District's 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 West Carroll Water 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 West Carroll Water District's internal control over financial reporting and compliance.

Raisor, Zapp, & Woods PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

March 13, 2019

**WEST CARROLL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018**

Our discussion and analysis of the West Carroll Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2018. Please read it in conjunction with the District's financial statements, which begin on page 6.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District's use of accounting methods which are similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The statement of net position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for evaluating the capital of the District and assessing its liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund net position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its water rates and other fees.

The final required financial statement is its statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reported period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

FINANCIAL HIGHLIGHTS

The following are key financial highlights:

- Total assets at year-end were \$3,147,366 and exceeded liabilities of \$1,171,687 by \$1,975,679 (i.e. net position). Of the total net position, \$267,027 was unrestricted and available to support short-term operations. Total net position increased from year end 2017 to 2018 in the amount of \$17,831.
- Operating revenues increased by \$77,548 from 2017.
- Total operating expenses increased by \$13,348 from 2017.

Balance Sheet, Statement of Net Position

Utility Plant decreased by \$103,397 in 2018. (See diagram below.) Current assets increased \$74,845 representing an increase in cash and accounts receivable. Other non-current assets increased \$5,324 representing an increase in restricted cash.

Condensed Assets

	<u>2018</u>	<u>2017</u>	<u>Difference</u>
Utility Plant	\$ 2,747,380	\$ 2,850,777	\$ (103,397)
Current Assets	300,313	225,468	74,845
Other Non-Current Assets	99,673	94,349	5,324
Total Net Assets	<u>\$ 3,147,366</u>	<u>\$ 3,170,594</u>	<u>\$ (23,228)</u>

**WEST CARROLL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018**

Balance Sheet, Statement of Net Position, continued

At the end of December 31, 2018, the District had \$2,747,380 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

	<u>2018</u>	<u>2017</u>
Land & Land Rights	\$ 18,754	\$ 18,754
Organizational Fees	585	1,031
Distribution System	2,726,557	2,829,391
Machinery & Equipment	<u>1,484</u>	<u>1,601</u>
Totals	<u>\$ 2,747,380</u>	<u>\$ 2,850,777</u>

Liability amounts presented in the Statement of Net Position are presented as current (payable within one year) and non-current as of December 31, 2018. A decrease in noncurrent liabilities is a result of the payments being made on various bonds issued to USDA/Rural Development and loans to Carrollton Utilities.

Condensed Liabilities

	<u>2018</u>	<u>2017</u>	<u>Difference</u>
Noncurrent Liabilities	\$ 1,078,715	\$ 1,119,863	\$ (41,148)
Current Liabilities	<u>92,972</u>	<u>92,883</u>	<u>89</u>
Total Liabilities	<u>\$ 1,171,687</u>	<u>\$ 1,212,746</u>	<u>\$ (41,059)</u>

Net Position

At December 31, 2018, net position increased by \$17,831.

	<u>2018</u>	<u>2017</u>	<u>Difference</u>
Net Investment in Capital Assets	\$ 1,638,817	\$ 1,701,234	\$ (62,417)
Restricted for Debt Service	75,835	70,009	5,826
Unrestricted	<u>261,027</u>	<u>186,605</u>	<u>74,422</u>
Total Net Position	<u>\$ 1,975,679</u>	<u>\$ 1,957,848</u>	<u>\$ 17,831</u>

Statement of Revenues, Expenses and Changes in Fund Net Position

West Carroll Water District's rate increase of 20% was effective April 24, 2018 and was charged on bills from June through December 2018. The rate increase, as well as stable customer usage, has given the district a net gain of \$17,831 at year end.

**WEST CARROLL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018**

Condensed Statement of Revenues and Expenses

	<u>2018</u>	<u>2017</u>	<u>Difference</u>
Operating Revenues	\$ 585,541	\$ 507,993	\$ 77,548
Operating Expenses	551,186	537,838	(13,348)
Net Operating Revenue	\$ 34,355	\$ (29,845)	\$ 64,200
Non-Operating Income (Expense)	(31,853)	(33,209)	1,356
Net Income (Loss) Before Contributions	\$ 2,502	\$ (63,054)	\$ 65,556
Capital Contributions	15,329	4,640	10,689
Net Income (Loss)	\$ 17,831	\$ (58,414)	\$ 76,245
Net Position Beginning of Year	1,957,848	2,016,262	(58,414)
Net Position End of Year	<u>\$ 1,975,679</u>	<u>\$ 1,957,848</u>	<u>\$ 17,831</u>

Statement of Cash Flows

Cash increased by \$57,460 in 2018 due partially to a rate increase.

Condensed Statement of Cash Flows

	<u>2018</u>	<u>2017</u>	<u>Difference</u>
Cash from Operating Activities (Net)	\$ 130,522	\$ 77,823	\$ 52,699
Cash from Capital & Related Financing Activities	(73,505)	(89,074)	15,569
Cash from Investing Activities	443	305	138
Change in Cash	\$ 57,460	\$ (10,946)	\$ 68,406
Cash Balance, Beginning of Year	221,602	232,548	(10,946)
Cash Balance, End of Year	<u>\$ 279,062</u>	<u>\$ 221,602</u>	<u>\$ 57,460</u>

NOTES PAYABLE AND LONG-TERM DEBT

All bond payments have been paid timely. The District does not have any short-term debts at this time.

	<u>2018</u>	<u>2017</u>	<u>Difference</u>
Long Term Debt	<u>\$ 1,108,563</u>	<u>\$ 1,149,543</u>	<u>\$ (40,980)</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During the year ended December 31, 2016, the District received \$88,049 for reimbursement from FEMA for damage to its distribution lines due to localized flash flooding in creeks and waterways back in July of 2015. The District has not received approximately \$9,783 from FEMA for final reimbursement for this damage as of December 31, 2018.

**WEST CARROLL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2018**

The District has applied for a 20% rate increase with the Public Service Commission in 2017 that was approved on April 24th, 2018. The new rates went into effect in June 2018 for May 2018 usage.

The District has also applied for a Purchased Water Rate Adjustment due to Carrollton Utilities raising their rates in 2018. West Carroll Water District relies on Carrollton Utilities for 97% of its purchased water. The increase imposed by Carrollton Utilities will cost the district \$20,369.42 per year.

Flooding and heavy rains throughout the district and region between February 20th and March 1st, 2018 caused some water lines to be exposed after water receded and two water main breaks due to landslides. The District applied to the Federal Emergency Management Agency for disaster assistance. \$14,169 has been recorded as a receivable for FEMA's share of the cost for emergency repairs made at the time of the incident to maintain water service. Additional funds in the amount of \$51,974 have been approved to make the necessary repairs to the distribution system.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office at 900 Clay St. Carrollton, KY 41008.

Vickie Edwards
Chairperson

Sarah Hudgins
Director of Finance

WEST CARROLL WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash, Including Time Deposits	\$ 189,389	\$ 137,268
Accounts Receivable (Net)	65,809	57,971
Accounts Receivable - FEMA	23,953	9,783
Inventory	17,206	16,616
Prepaid Expense	3,956	3,830
Total Current Assets	<u>\$ 300,313</u>	<u>\$ 225,468</u>
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 99,673	\$ 94,334
Interest Receivable	-	15
Capital Assets (Net)	<u>2,747,380</u>	<u>2,850,777</u>
Total Noncurrent Assets	<u>\$2,847,053</u>	<u>\$2,945,126</u>
Total Assets	<u>\$3,147,366</u>	<u>\$3,170,594</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 35,233	\$ 35,424
Utility Tax Payable	2,903	2,336
Sales Tax Payable	541	319
Accrued Interest - Customer Deposits	56	54
Accrued Interest - Notes Payable	553	730
Current Portion - Notes Payable	18,158	18,480
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable - Bonds Payable	12,528	13,040
Revenue Bonds Payable	23,000	22,500
Total Current Liabilities	<u>\$ 92,972</u>	<u>\$ 92,883</u>
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 549,000	\$ 572,000
Notes Payable - Carrollton Utilities	518,405	536,563
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	11,310	11,300
Total Noncurrent Liabilities	<u>\$1,078,715</u>	<u>\$1,119,863</u>
Total Liabilities	<u>\$1,171,687</u>	<u>\$1,212,746</u>
NET POSITION		
Net Investment in Capital Assets	\$1,638,817	\$1,701,234
Restricted for Debt Service	75,835	70,009
Unrestricted	<u>261,027</u>	<u>186,605</u>
Total Net Position	<u>\$1,975,679</u>	<u>\$1,957,848</u>

WEST CARROLL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2018 and 2017

Operating Revenues:	2018	2017
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 557,605	\$ 481,705
Total Charges for Services	<u>\$ 557,605</u>	<u>\$ 481,705</u>
Other Charges and Miscellaneous:		
Service Charges	\$ 15,120	\$ 11,465
Reconnect and Disconnect Charges	10,400	8,416
Miscellaneous	2,416	6,407
Total Other Charges and Miscellaneous	<u>\$ 27,936</u>	<u>\$ 26,288</u>
Total Operating Revenues	<u>\$ 585,541</u>	<u>\$ 507,993</u>
Operating Expenses:		
Commissioner Fees	\$ 9,000	\$ 9,000
Contractual Service - Sampling	4,611	3,707
Insurance	8,467	8,462
Maintenance Agreement	247,837	239,311
Maintenance of Distribution System	20,228	17,852
Office Supplies and Administrative Expense	2,045	2,083
Other Interest Expense	15	78
Payroll Taxes	689	689
Professional Services	7,760	7,530
Purchased Water	131,528	131,623
Regulatory Fees	1,027	1,016
Utilities - Pumping	13,868	10,832
Depreciation Expense	104,111	105,655
Total Operating Expenses	<u>\$ 551,186</u>	<u>\$ 537,838</u>
Operating Income (Loss)	<u>\$ 34,355</u>	<u>\$ (29,845)</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 428	\$ 305
Interest Expense	(31,835)	(33,068)
Amortization Expense - Organization Costs	(446)	(446)
Total Nonoperating Revenues (Expense)	<u>\$ (31,853)</u>	<u>\$ (33,209)</u>
Income (Loss) Before Contributions	\$ 2,502	\$ (63,054)
Capital Contributions	<u>15,329</u>	<u>4,640</u>
Change in Net Position	\$ 17,831	\$ (58,414)
Net Position--Beginning of Year	<u>1,957,848</u>	<u>2,016,262</u>
Net Position--End of Year	<u><u>\$ 1,975,679</u></u>	<u><u>\$ 1,957,848</u></u>

WEST CARROLL WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 578,502	\$ 509,637
Payments to Suppliers	(152,663)	(149,125)
Other Receipts (Payments)	(295,317)	(282,689)
Net Cash Provided (Used) by Operating Activities	<u>\$ 130,522</u>	<u>\$ 77,823</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 1,160	\$ 4,640
Purchases of Capital Assets	(1,160)	(4,640)
Principal Paid on Capital Debt	(40,980)	(55,162)
Interest Paid on Capital Debt	(32,525)	(33,912)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (73,505)</u>	<u>\$ (89,074)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	\$ 443	\$ 305
Net Cash Provided (Used) by Investing Activities	<u>\$ 443</u>	<u>\$ 305</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 57,460	\$ (10,946)
Balances-Beginning of the Year	<u>221,602</u>	<u>232,548</u>
Balances-End of the Year	<u><u>\$ 279,062</u></u>	<u><u>\$ 221,602</u></u>

	Balances Per December 31, 2018 Statement of Net Position	Balances Per December 31, 2018 Statement of Cash Flows
Cash	\$ 189,389	\$ 189,389
Restricted Cash	89,673	89,673
Restricted Time Deposits	10,000	-
Total Cash and Cash Equivalents, End of Year	<u><u>\$ 289,062</u></u>	<u><u>\$ 279,062</u></u>

	Balances Per December 31, 2017 Statement of Net Position	Balances Per December 31, 2017 Statement of Cash Flows
Cash	\$ 137,268	\$ 137,268
Restricted Cash	84,334	84,334
Restricted Time Deposits	10,000	-
Total Cash and Cash Equivalents, End of Year	<u><u>\$ 231,602</u></u>	<u><u>\$ 221,602</u></u>

WEST CARROLL WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 34,355	\$ (29,845)
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	104,111	105,655
Change in Assets and Liabilities:		
Receivables, Net	(7,838)	1,565
Inventories	(590)	2,385
Prepaid Expenses	(126)	86
Accounts and Other Payables	(191)	(2,121)
Accrued Expenses	791	(165)
Customer Meter Deposits Escrow Payable	10	263
Net Cash Provided by Operating Activities	<u>\$ 130,522</u>	<u>\$ 77,823</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

As of December 31, 2018 and 2017, the District had grant (FEMA) receivables of \$23,953 and \$9,783, respectively.

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The West Carroll Water District is a rural water company serving approximately 1000 customers in Carroll, Trimble and Henry Counties, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water company was formed under the laws of the above-mentioned counties through their Fiscal Courts and began operations in July, 1960.

In evaluating how to define West Carroll Water District 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) is 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 Bond 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.

Bond Issuance Costs: Bond Issuance Costs are expensed as incurred.

Organization Costs: Organization costs are amortized over forty (40) years.

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017

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

Property and equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs, and 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	10-50 years
- Machinery & Equipment	5-20 years

Inventory: Inventories are stated at latest cost.

Income Taxes: The West Carroll Water District is not subject to income taxes.

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

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. Capital contributions of \$14,169 from FEMA Public Assistance Awards were recognized in the year ended December 31, 2018. Tap-on fees of \$1,160 and \$4,640 were received by the District for the years ended December 31, 2018 and 2017, respectively.

Net position: Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, West Carroll Water District 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

The Bond and Interest Sinking Account was established with the original RECD bond issue, and is to be continued to be maintained as long as any of the 1975, 1981, 1994 or 2005 issues are outstanding. Under the bond resolution which established this account, it was provided that a minimum balance 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:

$$\begin{array}{rcl} & & \text{one sixth (1/6) of the next semiannual interest payment} \\ + & & \text{one twelfth (1/12) of next annual principal payment} \\ = & & \text{monthly transfer} \end{array}$$

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS (Continued)

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2018 and 2017.

Under the bond resolution of the original 1975 bonds, a Depreciation Account was to be established 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. Under the provisions of the 2005 Bond Resolution, it was determined that the monthly transfer required to be made to the Depreciation Account would be a minimum of \$435 each month until a balance of \$73,200 (increased from \$52,200) is accumulated. When the required balance of \$73,200 is attained, the monthly transfers may be discontinued, but are subject to resumption if the depreciation account is depleted below the required balance. The Depreciation Account is to be maintained as long as any of the bonds are outstanding.

In 2016, \$100,000 was withdrawn from the depreciation account to finance line replacements. \$10,097 was transferred in excess of the approved withdrawal. This amount was returned to the depreciation account during 2017. Monthly transfers were continued in accordance with the above requirements.

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 for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2018 and 2017, in accordance with the District's policy, \$281,808 and \$220,467 respectively, of the District's deposits were covered by federal depository insurance. Thus the District had no deposits that were exposed to custodial credit risk.

At December 31, 2018 and 2017, the District's deposits were as follows:

December 31, 2018

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 39,015	\$ 39,015
Time/Savings Deposits	242,793	249,997
Total Deposits	<u>\$ 281,808</u>	<u>\$ 289,012</u>

December 31, 2017

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 68,394	\$ 79,479
Time/Savings Deposits	152,073	152,073
Total Deposits	<u>\$ 220,467</u>	<u>\$ 231,552</u>

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017

NOTE 3 – CASH AND INVESTMENTS (Continued)

Reconciliation to Statement of Net Position:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Unrestricted Cash, Including Time Deposits	\$ 189,389	\$ 137,268
Restricted Cash, Including Time Deposits	99,673	94,334
Less Cash on Hand	<u>(50)</u>	<u>(50)</u>
Total	<u>\$ 289,012</u>	<u>\$ 231,552</u>

NOTE 4 – RESTRICTED ASSETS

Restricted cash and investments consist of the following:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Bond and Interest Sinking Account	\$ 38,898	\$ 38,845
Depreciation Account	49,465	44,189
Customer Deposits	<u>11,310</u>	<u>11,300</u>
Total	<u>\$ 99,673</u>	<u>\$ 94,334</u>

Restricted receivables consist of the following:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Interest Receivable	\$ -	\$ 15
Total	<u>\$ -</u>	<u>\$ 15</u>

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$6,588 and \$4,693 at December 31, 2018 and 2017, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

NOTE 6 – CAPITAL ASSETS

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

	<u>Balance at January 1, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at December 31, 2018</u>
Land & Land Rights	\$ 18,754	\$ -	\$ -	\$ 18,754
Organizational Fees	17,854	-	-	17,854
Distribution System	5,516,734	1,160	-	5,517,894
Machinery & Equipment	12,482	-	-	12,482
Totals at Historical Cost	<u>\$ 5,565,824</u>	<u>\$ 1,160</u>	<u>\$ -</u>	<u>\$ 5,566,984</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ (16,823)	\$ (446)	\$ -	\$ (17,269)
Distribution System	(2,687,343)	(103,994)	-	(2,791,337)
Machinery & Equipment	(10,881)	(117)	-	(10,998)
Total Accumulated Depreciation	<u>\$ (2,715,047)</u>	<u>\$ (104,557)</u>	<u>\$ -</u>	<u>\$ (2,819,604)</u>
Capital Assets, Net	<u>\$ 2,850,777</u>	<u>\$ (103,397)</u>	<u>\$ -</u>	<u>\$ 2,747,380</u>

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017

NOTE 6 – CAPITAL ASSETS (Continued)

	Balance at January 1, 2017	Additions	Disposals	Balance at December 31, 2017
Land & Land Rights	\$ 18,754	\$ -	\$ -	\$ 18,754
Organizational Fees	17,854	-	-	17,854
Distribution System	5,512,094	4,640	-	5,516,734
Machinery & Equipment	12,482	-	-	12,482
Totals at Historical Cost	<u>\$ 5,561,184</u>	<u>\$ 4,640</u>	<u>\$ -</u>	<u>\$ 5,565,824</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ (16,377)	\$ (446)	\$ -	\$ (16,823)
Distribution System	(2,581,805)	(105,538)	-	(2,687,343)
Machinery & Equipment	(10,764)	(117)	-	(10,881)
Total Accumulated Depreciation	<u>\$ (2,608,946)</u>	<u>\$ (106,101)</u>	<u>\$ -</u>	<u>\$ (2,715,047)</u>
Capital Assets, Net	<u>\$ 2,952,238</u>	<u>\$ (101,461)</u>	<u>\$ -</u>	<u>\$ 2,850,777</u>

Included under the District's Plant Assets were \$198,781 and \$178,794 of fully depreciated assets, at December 31, 2018 and 2017, respectively. Land and land rights and construction in process are capital assets not being depreciated.

Amortization expense on organizational fees and depreciation expense aggregated \$104,557 and \$106,101 in 2018 and 2017, respectively.

NOTE 7 – CUSTOMER DEPOSITS/ESCROW

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 were maintained which detailed the accrued interest on each customer's deposit based on a one-quarter (.25) of a percent annual rate for the years ended December 31, 2018 and 2017. Accrued interest is paid when the deposit is refunded or credited to the customer's account annually. At December 31, 2018 and 2017, respectively, \$56 and \$54 of interest was accrued on customer deposits.

NOTE 8 – LONG-TERM DEBT

As of December 31, 2018 and 2017, the long-term debt payable consisted of the following:

Bonds Payable:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
RECD Revenue Bonds of 1981 Series B, original issue amount of \$114,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2021.	\$ 18,500	\$ 24,000
RECD Revenue Bonds of 1994, original issue amount of \$395,000, secured by water revenues. Interest is charged at the rate of 4.5% per annum. Final maturity is January 1, 2033.	242,500	253,500

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017

Note 8 – LONG-TERM DEBT (Continued)

RECD Revenue Bonds of 2005, original issue amount of \$369,000, secured by water revenues. Interest is charged at the rate of 4.25% per annum. Final maturity is January 1, 2044.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
	311,000	317,000
Total Bonds Payable	\$ 572,000	\$ 594,500
Current Portion	\$ 23,000	\$ 22,500
Noncurrent Portion	549,000	572,000
Total Bonds Payable	\$ 572,000	\$ 594,500

Notes Payable:

The West Carroll Water District has entered into interlocal agreements under which it is the subrecipient of loan proceeds from the Kentucky Infrastructure Authority funding the Countywide Underserved Project, the Focus on Core Mission and Infrastructure Project and the Carroll County Interconnect Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. It is also the entity that provided oversight for the engineering and construction contracts, and other general costs associated with the projects. West Carroll Water District, under interlocal agreements with the City of Carrollton/Carrollton Utilities, agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Carrollton Utilities (Countywide Underserved Project) represents a 30 year loan as stipulated in an interlocal agreement. Interest is charged at 1.00% per annum. In addition, a loan servicing fee of .25% of the annual outstanding loan balance will be payable as part of each interest payment. The original principal balance was \$573,220 after the note was reduced by 35% principal forgiveness of \$308,657. Semi-annual payments with final maturity December 1, 2044.	\$ 506,328	\$ 523,301
Carrollton Utilities (Carroll County Interconnect Project) represents a 30 year loan as stipulated in an interlocal agreement. Interest is charged at .75% per annum. In addition, a loan servicing fee of .25% of the annual outstanding loan balance will be payable as a part of each interest payment. The original principal balance was \$33,233 after the note was reduced by 25% principal forgiveness of \$11,077. Semi-annual payments with final maturity December 1, 2045.	30,235	31,742
Total Notes Payable	\$ 536,563	\$ 555,043
Current Portion	\$ 18,158	\$ 18,480
Noncurrent Portion	518,405	536,563
Total Notes Payable	\$ 536,563	\$ 555,043

Payments due during 2016 of \$611 and \$1,322 were not paid on the Focus on Core Mission and Carroll County Interconnect Project notes, respectively. The December 1, 2017 payment of \$659 due on the Carroll County Interconnect Project was not made. The outstanding balance of \$15,367 on Focus on Core Mission and Infrastructure Project Note due Carrollton Utilities was repaid during January, 2017. All previous outstanding payments due were made during 2018.

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017

Note 8 – LONG-TERM DEBT (Continued)

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2018 and 2017.

December 31, 2018

	Balance at January 1, 2018	Additions	Retirements	Balance at December 31, 2018	Current Portion
Note Payable	\$ 555,043	\$ -	\$ 18,480	\$ 536,563	\$ 18,158
Bonds Payable	594,500	-	22,500	572,000	23,000
	<u>\$ 1,149,543</u>	<u>\$ -</u>	<u>\$ 40,980</u>	<u>\$ 1,108,563</u>	<u>\$ 41,158</u>

December 31, 2017

	Balance at January 1, 2017	Additions	Retirements	Balance at December 31, 2017	Current Portion
Note Payable	\$ 588,705	\$ -	\$ 33,662	\$ 555,043	\$ 18,480
Bonds Payable	616,000	-	21,500	594,500	22,500
	<u>\$ 1,204,705</u>	<u>\$ -</u>	<u>\$ 55,162</u>	<u>\$ 1,149,543</u>	<u>\$ 40,980</u>

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

	Note Payable			Bonds Payable		
	Principal	Interest	Service Fee	Principal	Interest	Total
2019	\$ 18,158	\$ 5,245	\$ 1,330	\$ 23,000	\$ 24,005	\$ 71,738
2020	18,337	5,066	1,285	25,000	22,868	72,556
2021	18,518	4,885	1,239	26,000	21,683	72,325
2022	18,701	4,702	1,192	20,000	20,800	65,395
2023	18,886	4,517	1,145	22,000	19,830	66,378
2024-2028	97,269	19,745	5,007	123,500	83,357	328,878
2029-2033	102,173	14,841	3,764	156,500	51,732	329,010
2034-2038	107,327	9,688	2,458	70,000	28,730	218,203
2039-2043	112,740	4,274	1,087	87,000	11,730	216,831
2044	24,454	187	49	19,000	-	43,690
	<u>\$ 536,563</u>	<u>\$ 73,150</u>	<u>\$ 18,556</u>	<u>\$ 572,000</u>	<u>\$ 284,735</u>	<u>\$ 1,485,004</u>

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017

NOTE 8 – LONG-TERM DEBT (Continued)

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

	<u>Note Payable</u>			<u>Bonds Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 18,480	\$ 5,542	\$ 1,415	\$ 22,500	\$ 25,055	\$ 72,992
2019	18,158	5,245	1,330	23,000	24,005	71,738
2020	18,337	5,066	1,285	25,000	22,868	72,556
2021	18,518	4,885	1,239	26,000	21,683	72,325
2022	18,701	4,702	1,192	20,000	20,800	65,395
2023-2027	96,316	20,698	5,249	118,000	88,805	329,068
2028-2032	101,173	15,841	4,018	151,000	58,635	330,667
2033-2037	106,276	10,739	2,725	88,000	31,705	239,445
2038-2042	111,636	5,378	1,366	83,000	15,428	216,808
2043-2044	47,448	597	152	38,000	806	87,003
	<u>\$ 555,043</u>	<u>\$ 78,693</u>	<u>\$ 19,971</u>	<u>\$ 594,500</u>	<u>\$ 309,790</u>	<u>\$ 1,557,997</u>

NOTE 9 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2018 and 2017 was \$31,850 and \$33,146, respectively. No interest was capitalized in 2018 or 2017.

NOTE 10 – FUND EQUITY-RESTRICTED NET POSITION

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Restricted for Debt Service:		
RECD Revenue Bonds of 1981, 1994, and 2005		
Cash	\$ 88,363	\$ 83,034
Add: Accrued Interest and Public Assistance	-	15
Less: Accrued Interest Payable	(12,528)	(13,040)
Total Restricted for Debt Service	<u>\$ 75,835</u>	<u>\$ 70,009</u>

NOTE 11 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$11,747 and \$5,600 at December 31, 2018 and 2017, respectively.

NOTE 12 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through the contributions, premiums and assessments to the Kentucky Association of Counties All Lines Fund (KALF).

NOTE 13 – ECONOMIC DEPENDENCY

The Water District purchases 100% of the water it sells from the following entities: Carrollton Utilities (95.0%), the Henry County Water District (2.2%), the Trimble County Water District (1.0%), and the City of Milton Water and Sewer Utility (1.8%).

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2018 and 2017

NOTE 14 – OPERATION AND MAINTENANCE CONTRACT

Effective April 1, 1998, the District entered into an agreement with Carrollton Utilities under which Carrollton Utilities agreed to provide the operation and maintenance of the District's facilities, customer billing services, accounting functions, and related services. Effective July 1, 2017, the management contract fee was contracted at \$248,178. No change was made in the contract during 2018.

NOTE 15 – CONTINGENCIES

During the year ended December 31, 2015, the District experienced significant damage to its distribution lines due to inclement weather. The District applied for funding from the Federal Emergency Management Agency to enable the District to repair washed out lines and secure the soil surrounding the lines. FEMA approved funding required for 75% of the project. A bid was accepted on November 30, 2015 from Burkhardt-Crawford Contracting for \$113,505 to complete the project. Work was completed in 2016. At December 31, 2016, the District was awaiting FEMA's final review of the project for release of retained funds. A receivable of \$9,783 was recorded in the financial statements for these funds and is still outstanding at December 31, 2018.

Flooding and heavy rains throughout the District and region between February 20th and March 1st, 2018 caused some water lines to be exposed after water receded and two water main breaks due to landslides. The District applied to the Federal Emergency Management Agency for disaster assistance. \$14,169 has been recorded as a receivable for FEMA's share of the cost for emergency repairs made at the time of the incident to maintain water service. Additional funds in the amount of \$51,974 have been approved to make the necessary repairs to the distribution system.

The District has pending legal claims outstanding. The ultimate disposition of any settlement or other legal decision is not determined at the present 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
West Carroll Water District
Carrollton, KY 41008

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 West Carroll Water District as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise West Carroll Water District's basic financial statements and have issued our report thereon dated March 13, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered West Carroll Water District's 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 West Carroll Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of West Carroll Water District's 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Item 2018-001 that we consider to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether West Carroll Water District's 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*.

WEST CARROLL WATER DISTRICT'S RESPONSE TO FINDINGS

West Carroll Water District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. West Carroll Water District's 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 13, 2019

**WEST CARROLL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2018**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the West Carroll Water District were prepared in accordance with GAAP.
2. One deficiency in internal control related to the audit of the financial statements is 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*. Item 2018-001 is reported as a significant deficiency.
3. No instances of noncompliance material to the financial statements of West Carroll Water District were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

2018-001 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 cited as a significant deficiency in the schedule of findings and responses for the year ended December 31, 2017 as Item 2017-001.

CAUSE:

The draft financial statements and disclosures are prepared during the audit process.

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 avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and accepted the financial statements as presented.

COMPLIANCE AND OTHER MATTERS

NONE