

EAST CASEY COUNTY WATER DISTRICT
Liberty, Kentucky

FINANCIAL STATEMENTS
December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

J. Carroll Luby, CPA

Board of Commissioners
East Casey County Water District
Liberty, Kentucky

We have audited the accompanying balance sheets of East Casey County Water District as of December 31, 2010 and 2009 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the **Government Auditing Standards**, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

East Casey County Water District has not presented the Management Discussion and Analysis, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Casey County Water District as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with **Government Auditing Standards**, we have also issued a report dated March 3, 2011, on our consideration of the East Casey County Water District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be read in conjunction with this report in considering the results of our audit.

Ray, Foley, Hensley & Company
Ray, Foley, Hensley & Company, PLLC
March 3, 2011

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EAST CASEY COUNTY WATER DISTRICT
BALANCE SHEETS
December 31,

ASSETS	2010	2009
Current assets		
Cash and cash equivalents	\$ 500,509	\$ 676,221
Investments - certificates of deposit	820,031	802,890
Customer accounts receivable, net	137,413	129,367
Grant receivable	451,555	280,195
Accrued interest receivable	<u>3,480</u>	<u>4,823</u>
	<u>1,912,988</u>	<u>1,893,496</u>
Restricted assets		
Cash and cash equivalents	<u>513,262</u>	<u>452,404</u>
	<u>513,262</u>	<u>452,404</u>
Capital assets		
Land	52,657	52,657
Property, plant and equipment, net	11,256,214	11,362,754
Construction-in-progress	<u>1,044,370</u>	<u>293,070</u>
	<u>12,353,241</u>	<u>11,708,481</u>
TOTAL ASSETS	<u>\$ 14,779,491</u>	<u>\$ 14,054,381</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 265,345	\$ 85,847
Taxes payable	4,330	3,656
Construction Payable	85,631	293,070
Customer deposits payable	26,121	24,851
Accrued interest payable	94,908	96,851
Current portion of long-term debt	<u>61,500</u>	<u>58,000</u>
	<u>537,835</u>	<u>562,275</u>
Long-term debt		
Bonds payable, net	<u>3,175,000</u>	<u>3,236,500</u>
Net assets		
Invested in capital assets, net of debt	9,116,741	8,413,981
Restricted for reserves	513,262	452,404
Unrestricted	<u>1,436,653</u>	<u>1,389,221</u>
	<u>11,066,656</u>	<u>10,255,606</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,779,491</u>	<u>\$ 14,054,381</u>

The accompanying notes are an integral
part of the financial statements.

**EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
for the years ended December 31,**

	2010	2009
OPERATING INCOME		
Water sales	\$ 1,545,829	\$ 1,502,865
Late charges	46,003	45,052
Other revenue	<u>31,816</u>	<u>30,071</u>
Total operating income	<u>1,623,648</u>	<u>1,577,988</u>
OPERATING EXPENSES		
Water purchases	605,678	565,877
Salaries	206,363	197,535
Employee benefits	105,845	88,884
Taxes	16,169	17,574
Office expense & postage	36,982	36,644
Insurance	21,867	21,473
Transportation expense	26,816	20,292
Line upkeep	436,656	104,646
Contract labor	106,727	72,544
Utilities & telephone	64,895	58,964
Legal & professional	14,793	13,772
Miscellaneous	9,386	14,602
Regulatory commission expenses	<u>2,498</u>	<u>2,512</u>
Total operating expense	<u>1,654,675</u>	<u>1,215,319</u>
Operating income before depreciation	(31,027)	362,669
Depreciation expense	<u>(262,820)</u>	<u>(263,493)</u>
OPERATING INCOME	(293,847)	99,176
Non-operating income (expenses)		
Interest income	24,102	32,293
Interest expense	<u>(147,271)</u>	<u>(149,792)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	(417,016)	(18,323)
Capital Contributions		
Grants received	1,188,835	297,940
Tap fees	35,795	36,921
Other	<u>3,436</u>	<u>20,456</u>
Change in net assets	811,050	336,994
Net assets, beginning of year	<u>10,255,606</u>	<u>9,918,612</u>
NET ASSETS END OF YEAR	<u>\$ 11,066,656</u>	<u>\$ 10,255,606</u>

The accompanying notes are an integral
part of the financial statements.

**EAST CASEY COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
for the years ended December 31,**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,615,602	\$ 1,585,377
Payment to suppliers	(1,054,298)	(984,165)
Payment for employee services and benefits	<u>(418,935)</u>	<u>(358,963)</u>
Net cash provided by operating activities	<u>142,369</u>	<u>242,249</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments	(58,000)	(85,991)
Interest payments	(149,214)	(151,828)
Additions to property, plant and equipment	(1,115,019)	(160,624)
Tap fees	35,795	36,921
Other capital contributions	3,436	20,456
Grants received	<u>1,017,475</u>	<u>132,711</u>
Net cash (used) by financing activities	<u>(265,527)</u>	<u>(208,355)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(17,141)	(21,993)
Interest income	<u>25,445</u>	<u>33,277</u>
Net cash provided by investing activities	<u>8,304</u>	<u>11,284</u>
NET INCREASE (DECREASE) IN CASH	(114,854)	45,178
Cash and cash equivalents at beginning of year	<u>1,128,625</u>	<u>1,083,447</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,013,771</u>	<u>\$ 1,128,625</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income	\$ (293,847)	\$ 99,176
Noncash items included in operating income		
Depreciation	262,820	263,493
Changes in assets and liabilities		
(Increase) decrease in receivables	(8,046)	7,389
Increase (decrease) in accounts payable	179,498	(122,796)
Increase (decrease) in customer deposits	1,270	(4,099)
Increase (decrease) in taxes/other payables	<u>674</u>	<u>(914)</u>
Net cash provided by operating activities	<u>\$ 142,369</u>	<u>\$ 242,249</u>

The accompanying notes are an integral part of the financial statements.

EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

1. ORGANIZATION AND ACCOUNTING POLICIES

The East Casey County Water District was created and organized as a public body corporate in East Casey County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Casey County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

Fixed assets are recorded at cost. Interest incurred during the period of construction is capitalized as a part of the construction costs. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets.

The allowance for uncollectible accounts at December 31, 2010 and 2009 were \$262,866 and \$235,665, respectively. The District charges all uncollected accounts directly against current earnings. Charges against earnings for the years ended December 31, 2010 and 2009 were \$27,201 and \$25,768, respectively.

The District's financial statements are presented in conformity with the provisions of Governmental Accounting Standards Board Statement No. 34, "**Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments**". The District has not prepared the Management's Discussion and Analysis required by GASB 34.

The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

The preparation of financial statements in conformity with generally accepted accounting principles 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 period. Actual results could differ from those estimates.

The net assets of the District are classified into three categories; invested in capital assets net of related debit, restricted and unrestricted. The restricted net assets consist of reserves for bond retirement and depreciation costs relating to the construction, replacement, extension, additions and/or improvements to the system. These reserves are discussed in note 5.

For purposes of the statement of cash flows, the District defines cash and cash equivalents to include cash on hand, cash in bank and certificates of deposit with original maturities of 90 days or less.

The District records revenue as billed to its customers on monthly meter reading cycles. At the end of each year, water service which has been rendered from the latest date of each meter reading to the year end is unbilled.

Proprietary funds report all revenues and expenses as operating, except interest income, interest expense, amortization, and capital contributions.

Investments consist of certificates of deposit with original maturities of 90 days or longer. Investments are recorded at cost, which approximates fair value.

The District has evaluated and considered the need to recognize or disclose subsequent events through March 3, 2011 which represents the date that these financial statements were available for issuance. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2010, have not been evaluated by the District.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009**

2. CASH AND CASH EQUIVALENTS

Statutory Requirements

The East Casey County Water District deposits at December 31, 2010 and 2009 were entirely covered by Federal Depository Insurance or by collateral held by the custodial banks in the District's name. The bank balances of the District's deposits were \$2,004,402 and \$1,949,329 at December 31, 2010 and 2009, respectively.

Revised Statutes authorize local governmental units to invest in obligations of the United States and its agencies, obligations of the Commonwealth of Kentucky and its agencies, shares in savings and loan associations insured by federal agencies, deposits in national or state chartered banks insured by federal agencies and larger amounts in such institutions providing such banks pledge as security obligations of the United States government or its agencies.

Statement of Cash Flows

The Statement of Cash Flows includes as cash and cash equivalents the following:

	2010	2009
Cash	\$ 500,509	\$ 676,221
Restricted Cash	<u>513,262</u>	<u>452,404</u>
	<u>\$ 1,013,771</u>	<u>\$ 1,128,625</u>

3. PROPERTY, PLANT, AND EQUIPMENT

A summary of capital asset activity during the year follows:

	Balance 12/31/09	Additions	Deductions	Balance 12/31/10
Capital assets not depreciated:				
Land	\$ 52,657	\$ -	\$ -	\$ 52,657
Construction in Progress	<u>293,070</u>	<u>839,500</u>	<u>88,200</u>	<u>1,044,370</u>
Totals	345,727	839,500	88,200	1,097,027
Capital assets that are depreciated:				
Personal Property & Equipment	<u>15,494,177</u>	<u>156,280</u>	<u>-</u>	<u>15,650,457</u>
Less Accumulated Depreciation	<u>4,131,423</u>	<u>262,820</u>	<u>-</u>	<u>4,394,243</u>
Totals	<u>11,362,754</u>	<u>(106,540)</u>	<u>-</u>	<u>11,256,214</u>
Capital Assets, net	<u>\$ 11,708,481</u>	<u>\$ 732,960</u>	<u>\$ 88,200</u>	<u>\$ 12,353,241</u>

4. REVENUE BONDS PAYABLE

Long-term debt consists of two issues of 5% bonds issued in 1987 and 1990 for \$301,000 and \$500,000, respectively, four issues of 4.5% issued in 1993, 1997, 2000 and 2004, collateralized by the water distribution system payable to United States of America, Rural Development, and a 2008 issue of 4.38% bonds for \$1,001,000.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009**

4. REVENUE BONDS PAYABLE, continued

The following is a summary of the long-term debt payments for the years ended December 31, 2010:

Year Ending	Principal	Interest	Payment
2011	\$ 61,500	\$ 147,050	\$ 208,550
2012	63,500	144,202	207,702
2013	68,500	141,237	209,737
2014	70,000	138,065	208,065
2015	73,000	134,799	207,799
2016-2020	421,000	619,640	1,040,640
2021-2025	534,000	511,611	1,045,611
2026-2030	611,500	378,009	989,509
2031-2035	516,000	245,952	761,952
2036-2040	471,500	132,969	604,469
2041-2045	292,000	43,512	335,512
2046	<u>54,000</u>	<u>1,182</u>	<u>55,182</u>
	<u>\$ 3,236,500</u>	<u>\$ 2,638,228</u>	<u>\$ 5,874,728</u>

The following is a summary of long term debt for the year ended December 31, 2010:

	Interest Rate	Balance January 1, 2010	Issued	Principal Payments	Balance December 31, 2010
Series 1987	5.00%	\$ 208,000	\$ -	\$ 7,000	\$ 201,000
Series 1990	5.00%	379,000	-	11,000	368,000
Series 1993	4.50%	326,000	-	7,000	319,000
Series 1997	4.50%	458,500	-	8,500	450,000
Series 2000	4.50%	545,000	-	8,500	536,500
Series 2004	4.50%	388,000	-	5,000	383,000
Series 2007	4.38%	<u>990,000</u>	<u>-</u>	<u>11,000</u>	<u>979,000</u>
		<u>\$ 3,294,500</u>	<u>\$ -</u>	<u>\$ 58,000</u>	<u>\$ 3,236,500</u>

5. COMPLIANCE WITH BOND ORDINANCE

The East Casey County Water District is required to comply with the bond agreements of all bond issues as follows:

Sinking Fund

The District is required to set aside an amount into a special account known as the East Casey County Water District Water System Revenue Bonds, Bond and Interest Sinking Fund. The amount to be set aside and paid each month shall be not less than the following respective amounts:

- 1) A sum equal to one sixth (1/6) of the interest becoming due on the next succeeding interest due date, with respect to all outstanding Bond Issues.
- 2) A sum equal to one twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The District had set aside \$206,541 into a restricted account at December 31, 2010, and \$172,610 at December 31, 2009. Reserve requirements were met during 2010.

**EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009**

5. COMPLIANCE WITH BOND ORDINANCE, continued

Depreciation Fund

The District is required to deposit into the Depreciation Fund account the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and used, upon appropriate certification to the bank, for the purpose of paying the cost of construction replacements, extensions, additions and/or improvements to the project. Whenever the balance in the Depreciation Fund shall equal \$72,000 the monthly payments may be discontinued, or by order of the governing body of the District, be diverted into the Sinking Fund Account. The 2000 issue requires an additional deposit of \$275 per month for the life of the loan once the facility becomes operational. Furthermore, the 2007 series requires an additional \$455 per month for the life of the loan. The District had set aside \$306,721 and \$279,794 at December 31, 2010 and 2009.

6. RETIREMENT PLAN

The District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS.

The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of state legislature.

Contributions – For the year ended December 31, 2010, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Participating employers were required to contribute at an actuarially determined rate. Employees hired after August 31, 2008 and not already in the retirement system must contribute an additional 1% to subsidize health insurance premiums that are primarily withheld from CERS retirees' benefit payments. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended December 31, 2010, participating employers contributed 16.16% through June 30 and 16.93% thereafter, of each employee's wages, which is equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

EAST CASEY COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2010 and 2009

6. RETIREMENT PLAN, continued

The required contribution (employer and employee) and the actual percentage contributed for the District for the current and previous two years are as follows:

<u>Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 45,239	100%
2009	\$ 39,261	100%
2008	\$ 37,221	100%

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition to its general liability insurance, the district also carries commercial insurance for all other risks of loss such as worker's compensation and employee health and accident coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. CONTINGENCIES

The District had elected to be recognized as a reimbursing employer for state unemployment compensation purposes. Accordingly, the District will become liable for direct payment of unemployment benefits as they become due.

9. DISASTER RELIEF

During the year the District incurred substantial damage related to flooding. The District has applied for and has received approval for \$167,998 in incurred costs to be reimbursed from the Federal Emergency Management Agency (FEMA). Of these approved expenses the federal and state government will provide \$159,262 in reimbursements and the District will be required to match \$8,736. In addition, the District has submitted documentation on an additional \$170,783 in expenses for reimbursement. These expenses are pending final approval from FEMA and at December 31, 2010, it is estimated that the District will receive an additional \$161,903 in federal and state assistance. At December 31, 2010 the District has recorded revenue of \$321,165 related to disaster relief; however, final payments may be less than this amount.

In addition, to the above reimbursements the District has entered into a verbal agreement, with the contractor that performed the flood repairs, to pay a final amount depending on the amount of reimbursement received from FEMA. At December 31, 2010, the District has recorded a payable based on the estimated reimbursement from FEMA, less payments already made to the contractor, for \$168,781 related to this project. However, the amount paid could be less than this amount depending on FEMA's reimbursements. In addition, the District plans to enter into negotiations with the contractor to pay an additional amount over what FEMA reimburses; however, it is unknown at this time how additional will be paid. The final amount paid to the contractor could be up to \$323,400.

10. RECLASSIFICATIONS

Certain presentations of accounts previously reported have been reclassified in these financial statements. Such reclassifications had no effect on net income or fund balances as previously reported.

**EAST CASEY COUNTY WATER DISTRICT
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**

Board of Commissioners
East Casey County Water District
Liberty, Kentucky

We have audited the financial statements of the East Casey County Water District (the "District") as of and for the year ended December 31, 2010, and have issued our report thereon dated March 3, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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. We identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a material weakness in internal control over financial reporting. (2010-1).

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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**.

East Casey County Water District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, Board of Commissioners others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ray, Foley, Hensley & Company

Ray, Foley, Hensley & Company, PLLC
March 3, 2011

**EAST CASEY COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
December 31, 2010**

FINDING:

2010-1

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

The District lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures and thus, does not have the internal control procedures required to take responsibility for the financial statements in conformity with generally accepted accounting principles.

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

We recommend management review the costs and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

RESPONSE:

This is an ongoing finding. Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.