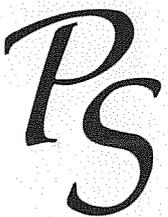


**WESTERN MASON COUNTY WATER DISTRICT  
DOVER, KENTUCKY  
AUDITED FINANCIAL STATEMENTS  
For the Years Ended December 31, 2011 and 2010**

PUBLIC SERVICE COMMISSION  
ANNUAL REPORT BRANCH  
  
JUN 24 2013  
  
RECEIVED  
EXAMINED BY \_\_\_\_\_



*Penny R. Stanfield, CPA & Co., PLLC*

*Certified Public Accountant*

2202 Old Main Street, Maysville, KY 41056

**WESTERN MASON COUNTY WATER DISTRICT  
DOVER, KENTUCKY  
AUDITED FINANCIAL STATEMENTS  
For the Years Ended December 31, 2011 and 2010**

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2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606

**WESTERN MASON COUNTY WATER DISTRICT  
DOVER, KENTUCKY  
For the Years Ended December 31, 2011 and 2010**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report .....	1-2
Financial Statements	
Statements of Net Assets .....	3
Statements of Revenues, Expenses and Changes In Net Assets.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6-12
 <b><u>SUPPLEMENTAL INFORMATION</u></b>	
Supplemental Information Required by Rural Development .....	13
Report on Internal Control Over Financial and on Compliance And Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> .....	14-15
Schedule of Findings and Responses.....	16



Penny R. Stanfield, CPA & Co., PLLC

*Certified Public Accountant*

### INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Western Mason County Water District  
Dover, Kentucky 41034

I have audited the accompanying financial statements of Western Mason County Water District as of and for the years ended December 31, 2011 and 2010, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Western Mason County Water District as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated May 3, 2013, on my consideration of the Western Mason County Water District's internal control over financial reporting and on my 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 my 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 considered in assessing the results of my audit.

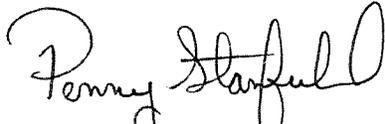
The Western Mason County Water District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

2202 Old Main Street, Maysville, KY 41056

Phone: (606) 759-0606 Fax: (606) 759-8606 Email: pstanfield@windstream.net

Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Western Mason County Water District's financial statements as a whole. The accompanying supplemental information on page 13 is presented for purpose of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



PENNY R. STANFIELD, CPA & CO., PLLC  
Maysville, Kentucky

May 3, 2013

**WESTERN MASON COUNTY WATER DISTRICT**  
**STATEMENTS OF NET ASSETS**  
**PROPRIETARY FUND**  
**December 31, 2011 and 2010**

ASSETS	2011	2010
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents - Unrestricted	\$ 10,507	\$ 108,922
Cash and Cash Equivalents - Restricted	136,288	13,052
Accounts Receivable Customers - (Less Allowance For Doubtful Accounts of \$38,162)	80,768	109,742
<b>TOTAL CURRENT ASSETS</b>	<b>227,563</b>	<b>231,716</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Nondepreciated Capital Assets:		
Land	206,996	206,996
Construction in Progress	1,354,318	1,216,858
Depreciated Capital Assets:		
Transmission and Distribution Plant	4,974,036	4,968,036
Building, Office Furniture and Equipment	45,853	52,434
	6,581,203	6,444,324
Less Accumulated Depreciation	(1,741,771)	(1,595,489)
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>	<b>4,839,432</b>	<b>4,848,835</b>
<b>OTHER ASSETS</b>		
Inventory	6,419	6,613
Bond Issuance Cost	3,912	4,042
<b>TOTAL OTHER ASSETS</b>	<b>10,331</b>	<b>10,655</b>
<b>TOTAL ASSETS</b>	<b>\$ 5,077,326</b>	<b>\$ 5,091,206</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 16,827	\$ 27,753
Accrued Taxes	12,381	11,469
Accrued Interest	100,664	91,282
Customer Deposits	11,900	11,975
Current Portion of Long-Term Debt	32,000	31,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>173,772</b>	<b>173,479</b>
<b>LONG-TERM LIABILITIES</b>		
Notes Payable	284,453	286,575
Bonds Payable	2,683,500	2,715,500
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>2,967,953</b>	<b>3,002,075</b>
<b>TOTAL LIABILITIES</b>	<b>3,141,725</b>	<b>3,175,554</b>
<b>NET ASSETS</b>		
Investment in Capital Assets, Net of Related Debt	1,839,479	1,815,760
Restricted Net Assets	136,288	13,052
Unrestricted Net Assets	(40,166)	86,840
<b>TOTAL NET ASSETS</b>	<b>1,935,601</b>	<b>1,915,652</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,077,326</b>	<b>\$ 5,091,206</b>

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

**WESTERN MASON COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUND**

For the Years Ended December 31, 2011 and 2010

	<b>2011</b>	<b>2010</b>
<b>OPERATING REVENUES</b>		
Water Sales	\$ 479,080	\$ 488,928
Service Charges and Other Revenue	25,191	21,305
<b>Total Operating Revenues</b>	<b>504,271</b>	<b>510,233</b>
<b>OPERATING EXPENSES</b>		
Accounting and Legal	8,219	6,175
Amortization	130	130
Contracted Services	5,460	6,929
Depreciation	154,800	155,334
Employee Benefits	55,532	55,885
Equipment Rental	2,354	2,145
Insurance	14,866	18,627
Materials & Supplies	8,680	17,155
Office and Utility Expense	29,152	25,512
Purchased Power	37,955	36,026
Purchased Water	18,322	18,584
Regulatory Commission Expense	780	763
Repairs and Maintenance	7,597	27,573
Salaries & Taxes	158,494	165,634
Vehicle Expense	13,096	18,091
Water Testing	3,026	2,427
<b>Total Operating Expenses</b>	<b>518,463</b>	<b>556,990</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(14,192)</b>	<b>(46,757)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Sewer Billing Fees	11,940	12,935
Customer Tap Fees	6,000	5,250
Interest Income	20	217
Interest Expense	(121,225)	(96,947)
<b>Net Non-Operating Revenues (Expenses)</b>	<b>(103,265)</b>	<b>(78,545)</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>(117,457)</b>	<b>(125,302)</b>
Capital Grants	137,406	298,146
<b>CHANGE IN NET ASSETS</b>	<b>19,949</b>	<b>172,844</b>
NET ASSETS, BEGINNING OF YEAR	1,915,652	1,742,808
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,935,601</b>	<b>\$ 1,915,652</b>

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

**WESTERN MASON COUNTY WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**PROPRIETARY FUND**  
**For The Years Ended December 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts From Customers	\$ 533,170	\$ 547,605
Payments to Suppliers	(214,859)	(248,181)
Payments to Employees	(158,494)	(165,634)
	<b>159,817</b>	<b>133,790</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	20	217
	<b>20</b>	<b>217</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Debt Proceeds	-	1,187,000
Principal Paid on Capital Debt	(33,121)	(29,500)
Purchases of Capital Assets	(145,397)	(1,240,958)
Contributed Capital-Tap Fees	6,000	5,250
Contributed Capital - Grants	137,406	27,646
Net Receipts from Sanitation District	11,940	12,935
Interest Paid on Capital Debt	(111,844)	(96,947)
	<b>(135,016)</b>	<b>(134,574)</b>
<b>NET INCREASE IN CASH</b>	<b>24,821</b>	<b>(567)</b>
Cash and Cash Equivalents - At Beginning of Year	121,974	122,541
<b>CASH AND CASH EQUIVALENTS - AT END OF YEAR</b>	<b>\$ 146,795</b>	<b>\$ 121,974</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Income (Loss)	\$ (14,192)	\$ (46,757)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	154,800	155,334
Amortization Expense	130	130
Change in Assets and Liabilities:		
Accounts Receivable, Net	28,974	38,622
Inventory	194	(1,316)
Accounts Payable and Other Payables	(10,014)	(10,973)
Customer Deposits	(75)	(1,250)
	<b>\$ 159,817</b>	<b>\$ 133,790</b>

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

**WESTERN MASON COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2011 and 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Western Mason County Water District (District) was incorporated as a public body in 1958 under Chapter 74 of Kentucky Revised Statutes. The Kentucky Public Service Commission presently regulates the District.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

**The Reporting Entity**

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Western Mason County Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations.

Based on the foregoing criteria there are no other organizations included in these financial statements.

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

**Enterprise Funds**

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (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.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The financial statements of the District are prepared using the economic resources measurement focus for the proprietary fund financial statements. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. With the measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet.

**WESTERN MASON COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2011 and 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Basis of Accounting**

The accounts of the District are maintained on the accrual basis of accounting. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

**Inventory**

The cost of inventory is recorded at cost valued on the FIFO method.

**Cash Flows**

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

**Fixed Assets**

Fixed assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates determined by reference to Utility Standards Rates (NARUC). Asset lives range from 25 to 40 years for system lines and plant, 20 years for pumping equipment, 20 years for meters, and from 5 to 20 years for equipment, tools, and office furniture and equipment. The provisions for depreciation reflect those standard rates by asset class.

**Power Costs**

The cost of power purchased for pumping water is charged to expense as used.

**Income Tax Status**

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for income taxes.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**WESTERN MASON COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2011 and 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Cash Flows**

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

**Unbilled Revenue**

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

**Net Assets**

Net Assets represent the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 2: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does not have a deposit policy for custodial credit risk. As of December 31, 2011 all of the District's deposits were covered by Federal Depository Insurance Corporation (FDIC) insurance.

**WESTERN MASON COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2011 and 2010**

NOTE 3: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2011 was as follows:

Business-Type Activities	Balance Jan. 1, 2011	Additions	Deductions	Balance Dec. 31, 2011
Cost:				
Land	\$ 206,996	\$ -	\$ -	\$ 206,996
Plant in Service	4,968,036	6,000	-	4,974,036
Other Depreciable Assets	52,434	1,937	8,518	45,853
Construction in Progress	1,216,858	137,460	-	1,354,318
Totals at historical cost	6,444,324	145,397	8,518	6,581,203
Less accumulated depreciation:				
Plant in Service	1,373,963	151,981	-	1,525,944
Other Depreciable Assets	221,526	2,819	8,518	215,827
Total accumulated depreciation	1,595,489	154,800	8,518	1,741,771
<b>Business-Type Activities Capital Assets - Net</b>	<b>\$ 4,848,835</b>	<b>\$ (9,403)</b>	<b>\$ -</b>	<b>\$ 4,839,432</b>

Capital asset activity for the fiscal year ended December 31, 2010 was as follows:

Business-Type Activities	Balance Jan. 1, 2010	Additions	Deductions	Balance Dec. 31, 2010
Cost:				
Land	\$ 206,996	\$ -	\$ -	\$ 206,996
Plant in Service	4,952,936	15,100	-	4,968,036
Other Depreciable Assets	43,434	9,000	-	52,434
Construction in Progress	-	1,216,858	-	1,216,858
Totals at historical cost	5,203,366	1,240,958	-	6,444,324
Less accumulated depreciation:				
Plant in Service	1,220,499	153,464	-	1,373,963
Other Depreciable Assets	219,656	1,870	-	221,526
Total accumulated depreciation	1,440,155	155,334	-	1,595,489
<b>Business-Type Activities Capital Assets - Net</b>	<b>\$ 3,763,211</b>	<b>\$ 1,085,624</b>	<b>\$ -</b>	<b>\$ 4,848,835</b>

**WESTERN MASON COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2011 and 2010**

NOTE 4: RESERVES

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

**A. SINKING FUND**

On or before the 20<sup>th</sup> day of each month and after the required payment to the Operation and Maintenance Fund Account, the District is required to set aside an amount into a special account known as the "Western Mason County Water District, Bond and Interest Sinking Fund". The amount to be set aside and paid into the Sinking Fund each month shall be sums equal to the following 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 required balance at December 31, 2011 was \$129,573. The District set aside \$129,573 at December 31, 2011 into the restricted account. However, deposits were not made to the Sinking Fund on a monthly basis as required in (1) and (2).

**B. DEPRECIATION FUND**

The District is required to deposit \$900 each month into the Depreciation Fund account as well as 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 shall be withdrawn and used, upon appropriate certification to Rural Development, for the purpose of paying the cost of constructing replacements, extensions, additions and/or improvements to the project. The required balance at December 31, 2011 was \$85,920. The District had set aside \$1,051 at December 31, 2011 into a restricted account, and therefore the account is underfunded by \$84,869.

NOTE 5: RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by District's management.

**WESTERN MASON COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended December 31, 2011 and 2010**

**NOTE 6: NOTES PAYABLE**

The following is a summary of notes outstanding for the year ending December 31, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance
Loan - Bank of Maysville - \$70,075, Interest rate 4.0%, due 01/19/2021, Annual payments of interest only	\$ 70,075	\$ -	\$ 2,122	\$ 67,953
Loan- Kentucky Infrastructure Authority (KIA) Interest rate- 2.0%, due 12/1/31 Semi-annual payments of \$6,989 beginning in 2012	216,500	-	-	216,500
Total	<u>\$ 286,575</u>	<u>\$ -</u>	<u>\$ 2,122</u>	<u>\$ 284,453</u>

**NOTE 7: BONDS PAYABLE**

The following is a summary of revenue bonds payable for the year ended December 31, 2011.  
The revenues of the District are pledged as collateral for the following debt:

	Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
1988 Series	5.75%	\$ 350,000	05/01/28	\$ 252,000	\$ -	\$ 8,000	\$ 244,000
1997 Series	4.88%	201,000	10/07/36	170,000	-	3,500	166,500
2001 Series	4.75%	258,000	01/11/42	238,500	-	3,500	235,000
2007 Series	4.25%	1,401,000	05/08/48	1,386,000	-	16,000	1,370,000
2010 Series	3.50%	700,000	01/01/50	700,000	-	-	700,000
Subtotal				<u>\$ 2,746,500</u>	<u>\$ -</u>	<u>\$ 31,000</u>	\$ 2,715,500
Less: Current Maturities							(32,000)
Total							<u>\$ 2,683,500</u>

The following is a schedule of long-term debt maturities at December 31, 2011:

	Principal	Interest
2012	32,000	111,422
2013	42,500	109,819
2014	45,500	107,956
2015	46,000	106,019
2016-2020	270,000	497,542
2021-2025	341,000	432,674
2026-2030	378,500	353,568
2031-2035	389,500	277,924
2036-2040	428,500	193,535
2041-2045	451,500	104,623
2046-2050	290,500	20,665
	<u>\$ 2,715,500</u>	<u>\$ 2,315,747</u>

**WESTERN MASON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2011 and 2010**

**NOTE 8: CONSTRUCTION COMMITMENT**

The District has committed to construction of the Germantown line replacement project. The project is funded by federal and state grants and by a federal loan. The project has an estimated completion date of March 2012. The estimated costs and funding sources for the project are as follows:

Rural Development Grant	\$ 300,000
Rural Development Loan	700,000
DWSRF Stimulus Loan	<u>500,000</u>
	<u>\$ 1,500,000</u>

Cost of the Project is estimated as follows:

Engineering	\$ 180,000
Construction	1,175,000
Other Costs	47,000
Contingency	<u>98,000</u>
	<u>\$ 1,500,000</u>

**NOTE 9: ECONOMIC DEPENDENCY**

The District purchases all of its water from Maysville Utilities, through a long-term contract at rates determined annually on the basis of operating costs of the Water Treatment Plant.

**NOTE 10: RETIREMENT PLAN**

The District does not participate in County Employees Retirement System of Commonwealth of Kentucky (CERS).

**SUPPLEMENTAL INFORMATION**

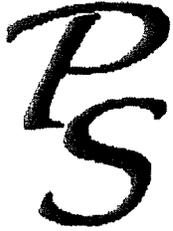
**WESTERN MASON COUNTY WATER DISTRICT  
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT  
For the Year Ended December 31, 2011**

**Schedule of Insurance in Force**

<u>Insurance Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability	\$ 3,000,000	07-01-12
Property - Building & Contents	\$ 1,962,000	07-01-12
Equipment & Vehicles	\$ 156,500	07-01-12
Fidelity Bond		
Public Officials Bond	\$ 2,000	Indefinite
Encroachment Bond	\$ 177,000	10-07-12
Workers' Compensation	Statutory	07-01-12
Treasurer Bond	\$ 250,000	Indefinite

**Commissioners**

Larry Redden, Chair  
Jerry Fields  
Pam Carpenter



Penny R. Stanfield, CPA & Co., PLLC

*Certified Public Accountant*

**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  
Western Mason County Water District  
Dover, Kentucky 41034

I have audited the financial statements of the business-type activities of Western Mason County Water District as of and for the year ended December 31, 2011, which comprises the Western Mason County Water District's basic financial statements and have issued my report thereon dated May 3, 2013. I conducted my 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 my audit, I considered Western Mason County Water District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Western Mason County Water District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Western Mason County Water'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.

My 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. However, of the significant deficiencies described above, I consider item 2011-01 to be a material weakness.

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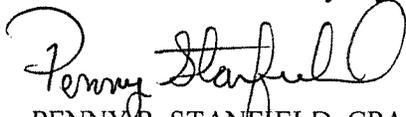
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western Mason County Water District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2011-2.

I noted certain matters that I reported to management of Western Mason County Water District in a separate letter dated May 3, 2013.

Western Mason County Water District's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit Western Mason County Water District's response and, accordingly, I express no opinion on it.

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



PENNY R. STANFIELD, CPA & CO., PLLC  
Maysville, Kentucky  
May 3, 2013

**WESTERN MASON COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2011**

**2011-1            LACK OF SEGREGATION OF DUTIES**

Condition:            The District continues to have a lack of segregation of duties. The office manager performs and manages all of the accounting transactions. While the work performed by the office manager is sufficient, there remains the overall problem of lack of segregation of duties.

Criteria:             Proper segregation of duties should be in place to ensure that no single individual has complete control over an accounting function.

Cause:                This is due to the small size of the District.

Effect:                Since one employee had control over all accounting transactions and no other compensating controls were in place, duties were not adequately segregated.

Recommendation:    The board of commissioners needs to provide more oversight.

Response:            The Board will take steps to insure the separation of duties, where possible, is maximized.

**2011-2            SINKING AND DEPRECIATION FUND DEPOSIT REQUIREMENTS**

Condition:            Monthly deposits into the Depreciation and Sinking Funds were not made as required throughout the year. Because of the failure to make monthly deposits, the Depreciation Fund is underfunded.

Recommendation:    The District must resume funding the Depreciation and Sinking Funds on the monthly basis in order to be in compliance with bond covenants.

Response:            The District will begin making the required monthly payments to the necessary funds.