

**WESTERN MASON COUNTY WATER DISTRICT  
DOVER, KENTUCKY  
AUDITED FINANCIAL STATEMENTS  
For the Years Ended December 31, 2018 and 2017**

WESTERN MASON COUNTY WATER DISTRICT  
DOVER, KENTUCKY  
Years Ended December 31, 2018 and 2017

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**DONNA J. HENDRIX**  
**CERTIFIED PUBLIC ACCOUNTANT**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners  
Western Mason County Water District, Kentucky  
Dover, KY

We have audited the accompanying financial statements of the business-type activities of Western Mason County Water District, Kentucky as of and for the year ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the 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 opinions 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 opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Western Mason County Water District, Kentucky, as of December 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2019, on our consideration of the Western Mason County Water District, Kentucky'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 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 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 Western Mason County Water District, Kentucky's internal control over financial reporting and compliance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriated operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Donna J. Hendrix, CPA*

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

November 7, 2019

**WESTERN MASON COUNTY WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**PROPRIETARY FUND**  
**DECEMBER 31,**

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
<b>Current Assets</b>		
Cash and Cash Equivalents - Unrestricted	\$ 45,620	\$ 20,960
Accounts receivable Customers-(Less Allowance for Doubtful Accounts of \$50,347)	135,791	130,686
Inventory	31,991	38,685
Total Current Assets	<u>213,402</u>	<u>190,331</u>
<b>Noncurrent Assets</b>		
Cash and Cash Equivalents - Restricted	182,169	147,862
Bond Issuance Cost	-	-
Capital Assets:		
Nondepreciable	206,996	206,996
Depreciable, Net of Accumulated Deprecation	3,587,493	3,718,710
Total Noncurrent Assets	<u>3,976,658</u>	<u>4,073,568</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,190,060</u>	<u>\$ 4,263,897</u>
 <b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 28,347	\$ 35,418
Accrued Taxes	10,890	10,437
Accrued Interest	88,038	90,489
Deferred Revenue	9,435	9,435
Customer Deposits	17,216	16,731
Current Portion of Loans Payable	19,138	18,650
Current Portion of Long-Term Debt	56,000	53,500
Total Current Liabilities	<u>229,064</u>	<u>234,660</u>
<b>Noncurrent Liabilities</b>		
Notes Payable	231,163	259,150
Bonds Payable	2,338,500	2,394,500
Total Noncurrent Liabilities	<u>2,569,663</u>	<u>2,653,650</u>
<b>TOTAL LIABILITIES</b>	<u>2,798,727</u>	<u>2,888,310</u>
<b>NET POSITION</b>		
Investment in Capital Assets, Net of Related Debt	\$ 1,149,688	1,199,906
Restricted for:		
Debt Service	154,850	120,396
Customer Deposits	18,447	16,634
Capital Projects & Replacement	8,872	10,833
Unrestricted	59,476	27,819
<b>TOTAL NET POSITION</b>	<u>\$ 1,391,333</u>	<u>\$ 1,375,588</u>

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

**WESTERN MASON COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES**  
**IN NET POSITION**  
**PROPRIETARY FUND**  
for the years ended December 31,

	2018	2017
<b>OPERATING INCOME</b>		
Water sales	\$ 692,963	\$ 699,093
Service Charges and Other revenue	<u>29,673</u>	<u>23,931</u>
Total operating income	<u>722,636</u>	<u>723,024</u>
<b>OPERATING EXPENSES</b>		
Accounting and Legal	31,588	26,997
Amortization	-	-
Bad Debt Expense	-	-
Contracted Services	-	7,550
Depreciation	163,218	167,009
Employee Benefits	64,857	58,812
Equipment Rental	-	-
Insurance	13,296	9,689
Materials & Supplies	15,159	23,023
Office and Utility Expense	33,038	45,498
Purchased Power	47,023	43,592
Purchased Water	21,060	39,835
Regulatory Commission Expense	5,090	1,337
Repairs and Maintenance	24,706	30,488
Salaries & Wages	200,802	199,817
Vehicle Expense	13,030	15,212
Water Testing	3,709	-
Total operating expense	<u>636,576</u>	<u>668,857</u>
<b>OPERATING INCOME (LOSS)</b>	86,060	54,167
<b>Non-operating income (Expenses)</b>		
Sewer Billing Fees	\$ 11,940	\$ 11,940
Customer Tap Fees	2,250	4,500
Interest income	20	8
Interest expense	(108,421)	(92,820)
Reimbursement from Transportation Cabinet	23,898	-
DOT Project Flow Through Income	-	7,042
DOT Project Flow Through Expense	-	(7,042)
Gain (Loss) on Disposal of Assets	-	(920)
<b>Total Non-Operating Income (Expense)</b>	<u>(70,313)</u>	<u>(77,293)</u>
<b>NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	15,747	(23,126)
Capital Grants	<u>-</u>	<u>-</u>
<b>CHANGE IN NET POSITION</b>	15,747	(23,126)
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>1,375,587</u>	<u>1,398,714</u>
	-	-
<b>NET POSITION, END OF YEAR</b>	<u>\$ 1,391,333</u>	<u>\$ 1,375,587</u>

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

**WESTERN MASON COUNTY WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**PROPRIETARY FUND**  
for the years ended December 31,

	2018	2017
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts From Customers	\$ 718,015	\$ 718,267
Payments to Suppliers	(274,934)	(279,633)
Payments to Employees	(200,802)	(207,017)
	<hr/>	<hr/>
<b>Net Cash (Used) Provided by Operating Activities</b>	242,279	231,617
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Interest Income	20	8
	<hr/>	<hr/>
<b>Net Cash (Used) Provided by Investing Activities</b>	20	8
<b>CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds From Loan	-	44,809
Principal Paid on Capital Debt	(80,999)	(71,558)
Reimbursement from Transportation Cabinet	23,898	-
Purchases of Capital Assets	(32,001)	(63,909)
Disposal of Capital Assets	-	1,000
Contributed Capital-Tap Fees	2,250	4,500
Contributed Capital- Federal Grants	-	-
Net Receipts from Sanitation District	11,940	11,940
Interest Paid on Capital Debt	(108,421)	(93,474)
	<hr/>	<hr/>
<b>Net cash (Used) Provided by Financing Activities</b>	(183,333)	(166,692)
	<hr/>	<hr/>
<b>NET INCREASE (DECREASE) IN CASH</b>	58,966	64,933
Cash and Cash Equivalents - At beginning of year	168,823	103,890
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS - AT END OF YEAR</b>	<u>\$ 227,789</u>	<u>\$ 168,823</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>		
Operating Income (Loss)	\$ 86,060	\$ 54,167
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	163,218	167,009
Change in Assets and Liabilities:		
Accounts Receivable, Net	(5,105)	486
Inventories	6,694	8,151
Accounts Payable and Other Payables	(9,073)	7,048
Customer Deposits	485	(5,244)
	<hr/>	<hr/>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 242,279</u>	<u>\$ 231,617</u>

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

**WESTERN MASON COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2018 and 2017

**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 statement of net position.



**WESTERN MASON COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
For the years ended December 31, 2018 and 2017

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The District maintains its accounting records on the accrual basis during the year. 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 purchases 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 statement 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.

**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.

**WESTERN MASON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
For the years ended December 31, 2018 and 2017**

**Net Position**

Net position represents the difference between assets and liabilities in the statement of net assets. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the 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, 2013 all of the District's deposits were covered by Federal Depository Insurance Corporation (FDIC) insurance.

**NOTE 3: RETIREMENT PLAN**

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

**NOTE 4: CHANGE IN ACCOUNTING PRINCIPLE**

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

**NOTE 5: 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:

**WESTERN MASON COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the years ended December 31, 2018 and 2017**

- 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 of the reserve at December 31, 2018 was \$140,718. The District had set aside \$ 154,850 at December 31, 2018 into a restricted account, resulting in the account being over-funded by \$14,132.

**B. DEPRECIATION FUND**

The District is required to deposit \$947 each month 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 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, 2018 was \$ 158,182. District had set aside \$8,872 at December 31, 2018 into a restrict account, and therefore the account is under-funded by \$ 149,310.

**NOTE 6: RISK MANAGEMENT**

The District is exposed to various risks of losses related to torts; theft of, damage to and destructive of assets; errors or 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**  
**December 31, 2018 and 2017**

**NOTE 7: FIXED ASSETS**

Capital asset activity for the fiscal year ended December 31, 2018 was as follows:

Business-Type Activities	Balance Jan. 1, 2018	Additions	Deductions	Balance Dec. 31, 2018
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 206,996		\$ -	\$ 206,996
Construction in Progress	-	\$ -	\$ -	-
<b>Total Capital Assets, Not Being Depreciated</b>	<b>206,996</b>	<b>-</b>	<b>-</b>	<b>206,996</b>
<b>Capital Assets, Being Depreciated:</b>				
Plant in Service	\$ 6,187,547	\$ 32,001	\$ -	6,219,548
Other Depreciable Assets	100,069	-	-	100,069
<b>Total Capital Assets, Being Depreciated</b>	<b>6,287,616</b>	<b>32,001</b>	<b>-</b>	<b>6,319,617</b>
<b>Less accumulated depreciation:</b>				
Plant in Service	2,344,777	155,898	-	2,500,675
Other Depreciable Assets	224,129	7,320	-	231,449
<b>Total accumulated depreciation</b>	<b>2,568,906</b>	<b>163,218</b>	<b>-</b>	<b>2,732,124</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>3,718,710</b>	<b>(131,217)</b>	<b>-</b>	<b>3,587,493</b>
<b>Business-Type Activities Capital Assets - Net</b>	<b>\$ 3,925,706</b>	<b>\$ (131,217)</b>	<b>\$ -</b>	<b>\$ 3,794,489</b>

Capital asset activity for the fiscal year ended December 31, 2017 was as follows:

Business-Type Activities	Balance Jan. 1, 2017	Additions	Deductions	Balance Dec. 31, 2017
<b>Capital Assets, Not Being Depreciated:</b>				
Land	\$ 206,996		\$ -	\$ 206,996
Construction in Progress	-	\$ -	\$ -	-
<b>Total Capital Assets, Not Being Depreciated</b>	<b>206,996</b>	<b>-</b>	<b>-</b>	<b>206,996</b>
<b>Capital Assets, Being Depreciated:</b>				
Plant in Service	6,168,447	19,100	-	6,187,547
Other Depreciable Assets	67,860	44,809	(12,600)	100,069
<b>Total Capital Assets, Being Depreciated</b>	<b>6,236,307</b>	<b>63,909</b>	<b>(12,600)</b>	<b>6,287,616</b>
<b>Less accumulated depreciation:</b>				
Plant in Service	2,186,121	158,656	-	2,344,777
Other Depreciable Assets	226,456	8,353	(10,680)	224,129
<b>Total accumulated depreciation</b>	<b>2,412,577</b>	<b>167,009</b>	<b>(10,680)</b>	<b>2,568,906</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>3,823,730</b>	<b>(103,100)</b>	<b>(1,920)</b>	<b>3,718,710</b>
<b>Business-Type Activities Capital Assets - Net</b>	<b>\$ 4,030,726</b>	<b>\$ (103,100)</b>	<b>\$ (1,920)</b>	<b>\$ 3,925,706</b>

**WESTERN MASON COUNTY WATER DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

**NOTE 8: NOTES PAYABLE**

The following is a summary of Notes Payable for the year ended December 31, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance
Loan-Bank of Maysville- \$100,150, Interest rate 4.0%, due 01/19/2024 Annual payments 01/19	\$ 64,273	-	\$ 8,017	\$ 56,258
Loan-Kentucky Infrastructure Authority (KIA) Interest rate- 2.0%, due 12/1/31 Semi-annual payments of \$6,989 beginning in 2012	169,861	-	10,633	159,328
Loan-Bank of Maysville-\$44,809 interest rate 3.5%, due 9/15/19, annual payments - 01/05	43,566	-	8,849	34,717
<b>TOTAL NOTES PAYABLE</b>	<b>\$ 234,235</b>	<b>\$ -</b>	<b>\$ 27,499</b>	<b>\$ 250,301</b>
		Less Current Maturities:		(19,138)
		Total		<b>\$ 231,163</b>

**NOTE 9: BONDS PAYABLE**

The following is a summary of revenue bonds payable for the year ended December 31, 2018.  
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	5/1/2028	\$ 183,000	\$ -	\$ 12,000	\$ 171,000
1997 Series	4.88%	201,000	10/7/2036	142,000		5,000	137,000
2001 Series	4.75%	258,000	1/11/2042	211,000		4,500	206,500
2007 Series	4.25%	1,401,000	5/8/2048	1,260,500		21,000	1,239,500
2010 Series	3.50%	700,000	1/1/2050	651,500		11,000	640,500
				<b>\$2,448,000</b>	<b>\$ -</b>	<b>\$ 53,500</b>	<b>\$ 2,394,500</b>
		Less: Current Maturities					(56,000)
		Total					<b>\$ 2,338,500</b>

The following is a schedule of long-term debt maturities at December 31, 2018:

	Principal	Interest	Total
2019	56,000	99,240	155,240
2020	59,000	96,729	155,729
2021	62,500	94,077	156,577
2022	66,000	91,264	157,264
2023	67,500	88,287	155,787
2024-2028	389,000	392,604	781,604
2029-2033	358,500	309,631	668,131
2034-2038	416,000	229,503	645,503
2039-2043	444,000	142,246	586,246
2044-2048	412,000	52,239	464,239
2049-2050	64,000	2,895	66,895
	<b>2,394,500</b>	<b>1,598,713</b>	<b>3,993,213</b>

## **SUPPLEMENTAL INFORMATION**

**WESTERN MASON COUNTY WATER DISTRICT  
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT  
December 31, 2018**

**Schedule of Insurance in Force**

<b><u>Insurance Coverage</u></b>	<b><u>Amount of Coverage</u></b>	<b><u>Expiration Date of Policy</u></b>
General Liability	\$ 3,000,000	7/1/2019
Property - Building & Contents	\$ 1,962,000	7/1/2019
Equipment & Vehicles	\$ 3,000,000	7/1/2019
Fidelity Bond Public Officials Bond	\$1,000/each	Indefinite
Encroachment Bonds	\$ 177,000	10/7/2019
	5,000	3/26/2019
	6,500	6/24/2019
Workers Compensation	Statutory	7/1/2019
Treasurer Bond	\$ 250,000	Indefinite

<b><u>Commissioner</u></b>	<b><u>Term Expires</u></b>
Larry Redden, Chairman	6/2019
Pam Carpenter, Secretary	6/2022
Jerry Fields, Treasurer	6/2021

**DONNA J. HENDRIX**  
**CERTIFIED PUBLIC ACCOUNTANT**

MEMBER: K.S.C.P.A.  
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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 Board of Commissioners  
Western Mason Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards, applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Western Mason Water District as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Western Mason Water District, Kentucky's basic financial statements and have issued our report thereon dated November 7, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Western Mason Water District, Kentucky'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Western Mason Water District, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Western Mason Water District, Kentucky'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Western Mason Water District, Kentucky's financial statements are free of 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*.

**Western Mason County Water District's Schedule of Findings and Responses**

Western Mason County Water District's response to the findings identified in our audit in the accompanying schedule of findings and responses, Western Mason County 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.

*Donna J. Hendrix, CPA*

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

November 7, 2019

WESTERN MASON COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2018

**PRIOR YEAR AUDIT FINDINGS AND RESPONSES**

**2017-1    BOND RESERVE/SINKING FUND 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 and Sinking Funds were underfunded.

Criteria:          The Water District should be making monthly deposits as required.

Cause:            Bond covenants require monthly deposits.

Effect:            The Water District is underfunded on the Depreciation Reserve and Sinking funds.

Recommendation: The District must resume funding both the sinking fund and depreciation reserve on a monthly basis as required by bond covenants and no withdraws should be made from the reserve account unless authorized.

Response:        The District will make an effort to be in compliance with the bond covenants.

Status:            The Sinking Fund is now properly funded, however the Depreciation Reserve is still underfunded. This will be carried to Current Year 2018-1.

WESTERN MASON COUNTY WATER DISTRICT  
SCHEDULE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2018

**CURRENT YEAR AUDIT FINDINGS AND RESPONSES**

**2018-1 BOND RESERVE REQUIREMENTS**

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

Criteria: The Water District should be making monthly deposits as required.

Cause: Bond covenants require monthly deposits.

Effect: The Water District is underfunded on the Depreciation Reserve fund.

Recommendation: The District must resume funding the depreciation reserve on a monthly basis as required by bond covenants and no withdraws should be made from the reserve account unless authorized.

Response: The District will make an effort to be in compliance with the bond covenants.