

**WESTERN MASON COUNTY WATER DISTRICT
DOVER, KENTUCKY
AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019**

WESTERN MASON COUNTY WATER DISTRICT
DOVER, KENTUCKY
Years Ended December 31, 2020 and 2019

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DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Western Mason Water District as of and for the year ended December 31, 2020 and 2019, 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 business-type activities of the Western Mason Water District, as of December 31, 2020 and 2019, 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 July 29, 2021, on our consideration of the Western Mason Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Western Mason Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Western Mason Water District'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 appropriate 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

July 29, 2021

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

ASSETS	2020	2019
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$ 82,378	\$ 72,212
Accounts receivable Customers-(Less Allowance for Doubtful Accounts of \$50,347 for 2020 & 2019)	175,544	156,348
Inventory	26,465	25,195
Total Current Assets	<u>284,387</u>	<u>253,755</u>
Noncurrent Assets		
Cash and Cash Equivalents - Restricted	258,534	199,260
Bond Issuance Cost	-	-
Capital Assets:		
Nondepreciable	206,996	206,996
Construction in Process	681,649	-
Depreciable, Net of Accumulated Depreciation	3,320,889	3,473,320
Total Noncurrent Assets	<u>4,468,068</u>	<u>3,879,576</u>
TOTAL ASSETS	<u>\$ 4,752,455</u>	<u>\$ 4,133,331</u>
 LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 29,393	\$ 31,416
Accrued Taxes	11,293	9,909
Accrued Interest	94,375	85,357
Deferred Revenue	9,435	9,435
Customer Deposits	18,234	17,466
Current Portion of Loans Payable	20,531	19,969
Current Portion of Long-Term Debt	62,500	59,000
Total Current Liabilities	<u>245,761</u>	<u>232,552</u>
Noncurrent Liabilities		
Notes Payable	178,212	210,203
Bonds Payable	2,897,431	2,279,500
Total Noncurrent Liabilities	<u>3,075,643</u>	<u>2,489,703</u>
TOTAL LIABILITIES	3,321,404	2,722,255
NET POSITION		
Investment in Capital Assets, Net of Related Debt	\$ 1,050,860	1,111,644
Restricted for:		
Debt Service	155,763	155,533
Customer Deposits	20,353	19,341
Capital Projects & Replacement	82,418	24,386
Unrestricted	121,657	100,172
TOTAL NET POSITION	<u>\$ 1,431,051</u>	<u>\$ 1,411,076</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,

	2020	2019
OPERATING INCOME		
Water sales	\$ 712,680	\$ 686,276
Service Charges and Other revenue	<u>9,298</u>	<u>36,216</u>
Total operating income	<u>721,978</u>	<u>722,492</u>
OPERATING EXPENSES		
Accounting and Legal	21,388	24,975
Depreciation	176,389	167,723
Employee Benefits	60,710	58,247
Insurance	12,944	11,788
Materials & Supplies	15,535	22,711
Office and Utility Expense	34,510	36,189
Purchased Power	47,547	46,965
Regulatory Commission Expense	2,113	4,677
Repairs and Maintenance	29,033	22,672
Salaries & Wages	217,502	206,568
Vehicle Expense	4,867	13,063
Water Testing	3,158	1,992
Total operating expense	<u>625,696</u>	<u>617,571</u>
OPERATING INCOME (LOSS)	96,282	104,921
Non-operating income (Expenses)		
Sewer Billing Fees	\$ 11,940	\$ 11,940
Customer Tap Fees	4,200	6,750
Interest income	52	33
Interest expense	(112,625)	(103,901)
Reimbursement for New Line Extension	20,125	-
DOT Project Flow Through Income	-	-
DOT Project Flow Through Expense	-	-
Gain (Loss) on Disposal of Assets	-	-
Total Non-Operating Income (Expense)	<u>(76,308)</u>	<u>(85,179)</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	19,974	19,742
Capital Grants	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	19,974	19,742
NET POSITION, BEGINNING OF YEAR	<u>1,411,076</u>	<u>1,391,333</u>
	-	-
NET POSITION, END OF YEAR	<u>\$ 1,431,050</u>	<u>\$ 1,411,076</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,

	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 703,550	\$ 702,185
Payments to Suppliers	(224,696)	(237,106)
Payments to Employees	(217,502)	(206,539)
	261,352	258,540
CASH FLOW FROM INVESTING ACTIVITIES		
Interest Income	52	33
	52	33
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Loan (RD Loan)	680,433	37,557
Principal Paid on Capital Debt	(90,430)	(113,686)
Reimbursement from New Line Extension	20,125	-
Purchases of Capital Assets	(23,958)	(53,550)
Construction in Progress	(681,649)	-
Contributed Capital-Tap Fees	4,200	6,750
Net Receipts from Sanitation District	11,940	11,940
Interest Paid on Capital Debt	(112,625)	(103,901)
	(191,964)	(214,890)
NET INCREASE (DECREASE) IN CASH	69,440	43,683
Cash and Cash Equivalents - At beginning of year	271,472	227,789
CASH AND CASH EQUIVALENTS - AT END OF YEAR	\$ 340,912	\$ 271,472
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 96,282	\$ 104,921
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	176,389	167,723
Change in Assets and Liabilities:		
Accounts Receivable, Net	(19,196)	(20,557)
Inventories	(1,270)	6,796
Accounts Payable and Other Payables	8,379	(593)
Customer Deposits	768	250
	261,352	258,540
Net Cash Provided (Used) by Operating Activities	\$ 261,352	\$ 258,540

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, 2020 and 2019**

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, 2020 and 2019**

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, 2020 and 2019

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, 2020 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 20th 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, 2020 and 2019**

- 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, 2020 was \$142,629. The District had set aside \$ 155,763 at December 31, 2020 into a restricted account, resulting in the account being over-funded by \$13,134.

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, 2020 was \$ 167,742. District had set aside \$81,918 at December 31, 2020 into a restrict account, and therefore the account is under-funded by \$ 85,824.

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
For the years ended December 31, 2020 and 2019

NOTE 7: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2020 was as follows:

Business-Type Activities	Balance Jan. 1, 2020	Additions	Deductions	Balance Dec. 31, 2020
Capital Assets, Not Being Depreciated:				
Land	\$ 206,996		\$ -	\$ 206,996
Construction in Progress	-	\$ 681,649	-	\$ 681,649
Total Capital Assets, Not Being Depreciated	206,996	681,649	-	888,645
Capital Assets, Being Depreciated:				
Plant in Service	\$ 6,235,133	\$ 23,958	-	6,259,091
Other Depreciable Assets	138,034	-	-	138,034
Total Capital Assets, Being Depreciated	6,373,167	23,958	-	6,397,125
Less accumulated depreciation:				
Plant in Service	2,656,585	156,298	-	2,812,883
Other Depreciable Assets	243,262	20,091	-	263,353
Total accumulated depreciation	2,899,847	176,389	-	3,076,236
Total Capital Assets, Being Depreciated, Net	3,473,320	(152,431)	-	3,320,889
Business-Type Activities Capital Assets - Net	\$ 3,680,316	\$ 529,218	\$ -	\$ 4,209,534

Capital asset activity for the fiscal year ended December 31, 2019 was as follows:

Business-Type Activities	Balance Jan. 1, 2019	Additions	Deductions	Balance Dec. 31, 2019
Capital Assets, Not Being Depreciated:				
Land	\$ 206,996		-	\$ 206,996
Construction in Progress	-	-	-	-
Total Capital Assets, Not Being Depreciated	206,996	-	-	206,996
Capital Assets, Being Depreciated:				
Plant in Service	6,219,548	15,585	-	6,235,133
Other Depreciable Assets	100,069	37,965	-	138,034
Total Capital Assets, Being Depreciated	6,319,617	53,550	-	6,373,167
Less accumulated depreciation:				
Plant in Service	2,500,675	155,910	-	2,656,585
Other Depreciable Assets	231,449	11,813	-	243,262
Total accumulated depreciation	2,732,124	167,723	-	2,899,847
Total Capital Assets, Being Depreciated, Net	3,587,493	(114,173)	-	3,473,320
Business-Type Activities Capital Assets - Net	\$ 3,794,489	\$ (114,173)	\$ -	\$ 3,680,316

WESTERN MASON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2020 and 2019

NOTE 8: NOTES PAYABLE

The following is a summary of Notes Payable for the year ended December 31, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance
Loan-Bank of Maysville-\$100,150, Interest rate 4%, Due 1/19/24 Annual payments 1/19	\$ 48,022		8,365	\$ 39,657
Loan-Kentucky Infrastructure Authority(KIA) Interest rate-2%, due 12/1/31 Semi-annual payments of \$6,989 beginning 2012	\$ 148,482		11,065	137,417
Loan-Bank of Maysville-\$37,557 Interest rate 3.5%, due 7/24/21, annual payments-07/24	\$ 33,669		12,000	21,669
Total Notes Payable	<u>\$ 230,173</u>	<u>\$ -</u>	<u>\$ 31,430</u>	<u>\$ 198,743</u>
			Less Current Maturities:	(20,531)
			Total	<u>\$ 178,212</u>

NOTE 9: BONDS PAYABLE

The following is a summary of revenue bonds payable for the year ended December 31, 2019.
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	\$ 158,000		\$ 14,000	\$ 144,000
1997 Series	4.88%	201,000	10/7/2036	132,000		5,500	126,500
2001 Series	4.75%	258,000	1/11/2042	201,500		5,000	196,500
2007 Series	4.25%	1,401,000	5/8/2048	1,217,500		23,000	1,194,500
2010 Series	3.50%	700,000	1/1/2050	629,500		11,500	618,000
2020-CIP					680,431		680,431
				<u>\$ 2,338,500</u>	<u>\$ 680,431</u>	<u>\$ 59,000</u>	<u>\$ 2,959,931</u>
							Less: Current Maturities
							(62,500)
							<u>Total</u>
							<u>\$ 2,897,431</u>

The following is a schedule of long-term debt maturities at December 31, 2020:

	Principal	Interest	Total
2021	62,500	94,077	156,577
2022	66,000	91,264	157,264
2023	67,500	88,287	155,787
2024	71,500	85,251	156,751
2025	73,500	82,030	155,530
2026-2030	378,500	357,844	736,344
2031-2035	389,500	279,316	668,816
2036-2040	428,500	195,166	623,666
2041-2045	451,500	106,557	558,057
2046-2050	290,500	22,954	313,454
	<u>\$ 2,279,500</u>	<u>\$ 1,402,745</u>	<u>\$ 3,682,245</u>

**WESTERN MASON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2020 and 2019**

NOTE 10: PENDING LEGAL ISSUES

There is a pending legal issue. The matter is disputed by the District. The outcome is unknown.

NOTE 11: SUBSEQUENT EVENTS

There were no subsequent events to report as of July 29, 2021.

SUPPLEMENTAL INFORMATION

**WESTERN MASON COUNTY WATER DISTRICT
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2020**

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	7/1/2021
Property - Building & Contents	\$ 1,962,000	7/1/2021
Equipment & Vehicles	\$ 3,000,000	7/1/2021
Fidelity Bond Public Officials Bond	\$1,000/each	Indefinite
Encroachment Bonds	\$ 177,000	10/7/2021
	5,000	3/26/2021
	6,500	6/24/2021
Workers Compensation	Statutory	7/1/2021
Treasurer Bond	\$ 250,000	Indefinite

<u>Commissioner</u>	<u>Term Expires</u>
Larry Redden, Chairman	6/2023
Pam Carpenter, Secretary	6/2022
Jerry Fields, Treasurer	6/2025

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.I.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 business-type activities of Western Mason Water District as of and for the year ended December 31, 2020 and 2019, 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 July 29, 2021.

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*.

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

July 29, 2021

WESTERN MASON COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2020

PRIOR YEAR AUDIT FINDINGS AND RESPONSES

2019-1 BOND RESERVE/SINKING FUND 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 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.

Status: The Depreciation Reserve is still underfunded. This will be carried to Current Year 2020-1.

WESTERN MASON COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2020

CURRENT YEAR AUDIT FINDINGS AND RESPONSES

2020-1 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.