

**WESTERN MASON COUNTY WATER DISTRICT**

**FINANCIAL STATEMENTS AND OTHER INFORMATION  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**

**TABLE OF CONTENTS**

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	<u>PAGE</u>
<b>INDEPENDENT AUDITOR'S REPORT</b> .....	2-4
<b>FINANCIAL STATEMENTS:</b>	
STATEMENTS OF NET POSITION .....	5
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION .....	6
STATEMENTS OF CASH FLOWS .....	7
NOTES TO FINANCIAL STATEMENTS .....	8-15
<b>OTHER INFORMATION:</b>	
OTHER INFORMATION REQUIRED BY RURAL DEVELOPMENT .....	16
<b>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 <i>GOVERNMENT AUDITING STANDARDS</i></b> .....	17-18

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## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Western Mason County Water District  
Dover, Kentucky

### *Opinion*

We have audited the accompanying financial statements of the Western Mason County Water District (the "District"), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of December 31, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Other Matter*

The financial statements of the District for the year ended December 31, 2021 were audited by another auditor, who expressed an unmodified opinion on those statements on August 18, 2022.

As part of our audit of the 2022 financial statements, we also audited adjustments described in Note (10) that were applied to restate the 2021 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2021 financial statements of the District other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2021 financial statements as a whole.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a

going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic 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.

### ***Other Information***

Management is responsible for the other information. The other information comprises the Schedule Required by Rural Development but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2023, on our consideration of the 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 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 the District's internal control over financial reporting and compliance.

Kelley Dalloway Smith Hooley, PSC

Ashland, Kentucky  
August 16, 2023

**WESTERN MASON COUNTY WATER DISTRICT**  
**STATEMENTS OF NET POSITION**  
**PROPRIETARY FUND**  
**DECEMBER 31, 2022 AND 2021**

	2022	(As Restated) 2021
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents - unrestricted	\$ 162,555	\$ 69,259
Accounts receivable (net of allowance for doubtful accounts of \$50,347 and \$50,347, respectively)	123,618	116,992
Inventory	33,732	32,449
Total current assets	319,905	218,700
Noncurrent Assets:		
Cash and cash equivalents – restricted	404,698	150,754
Capital Assets:		
Non-depreciable	206,996	206,996
Depreciable, net of accumulated depreciation	4,966,017	4,945,112
Right-to-use assets	3,690	-
Total noncurrent assets	5,581,401	5,302,862
Total assets	\$ 5,901,306	\$ 5,521,562
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 207,326	\$ 126,056
Accrued payroll and related liabilities	22,184	-
Accrued taxes	3,135	12,631
Accrued interest	88,196	26,531
Deferred revenue	-	9,435
Customer deposits	18,860	18,334
Leases payable – current	2,051	-
Notes payable – current	11,745	11,514
Bonds payable – current	94,500	-
Total current liabilities	447,997	204,501
Noncurrent liabilities:		
Leases payable – net of current portion	1,736	-
Notes payable – net of current portion	102,871	114,617
Bonds payable – net of current portion	3,545,000	3,639,500
Total noncurrent liabilities	3,649,607	3,754,117
Total liabilities	4,097,604	3,958,618
<b>NET POSITION</b>		
Net investment in capital assets	1,418,897	1,386,477
Restricted for:		
Debt service	183,710	318
Customer deposits	21,056	20,812
Capital projects and replacement	199,932	115,465
Unrestricted	(19,893)	39,872
Total net position	1,803,702	1,562,944
Total liabilities and net position	\$ 5,901,306	\$ 5,521,562

The accompanying notes to financial statements are an integral part of this statement.

**WESTERN MASON COUNTY WATER DISTRICT  
STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 794,268	\$ 768,264
Service charges and other revenue	35,777	32,475
Total operating revenues	<u>830,045</u>	<u>800,739</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	309,815	248,488
Employee benefits	75,356	66,208
Accounting and legal	33,408	16,644
Depreciation	230,246	224,465
Insurance	14,797	13,928
Materials and supplies	27,074	42,773
Office and utility expense	43,902	41,092
Purchased power	51,868	54,478
Regulatory commission expense	4,004	4,312
Repairs and maintenance	24,154	18,386
Vehicle expense	6,689	7,389
Water testing	2,146	3,436
Other	11,525	-
Total operating expenses	<u>834,984</u>	<u>741,599</u>
OPERATING INCOME (LOSS)	<u>(4,939)</u>	<u>59,140</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Sewer billing fees	11,940	11,940
Interest income	92	59
Interest expense	(90,759)	(156,180)
Reimbursement for new line extension	-	34,675
Total non-operating revenues (expenses)	<u>(78,727)</u>	<u>(109,506)</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(83,666)	(50,366)
Capital grants	318,424	238,970
Customer tap fees	6,000	10,050
INCREASE IN NET POSITION	240,758	198,654
NET POSITION, BEGINNING OF YEAR (as restated)	<u>1,562,944</u>	<u>1,364,290</u>
NET POSITION, END OF YEAR (as restated)	<u>\$ 1,803,702</u>	<u>\$ 1,562,944</u>

The accompanying notes to financial statements are an integral part of this statement.

**WESTERN MASON COUNTY WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 805,014	\$ 792,631
Cash payments to suppliers for goods and services	(214,936)	(244,473)
Cash payments to employees	(287,631)	(248,488)
Net cash provided by operating activities	<u>302,447</u>	<u>299,670</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from loan (RD loan)	-	834,569
Principal paid on capital debt	(11,515)	(227,613)
Interest paid on capital debt	(28,997)	(156,180)
Reimbursement from new line extension	-	34,675
Purchases of capital assets	(251,151)	(1,848,688)
Construction in progress	-	681,649
Contributed capital – tap fees	6,000	10,050
Contributed capital – grants	318,424	238,970
Net receipts from sanitation district	11,940	11,940
Net cash provided by (used for) capital and related financing activities	<u>44,701</u>	<u>(420,628)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	<u>92</u>	<u>59</u>
Net cash provided by investing activities	<u>92</u>	<u>59</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>347,240</b>	<b>(120,899)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>220,013</u>	<u>340,912</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 567,253</u>	<u>\$ 220,013</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ (4,939)	\$ 59,140
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	230,246	224,465
Changes in assets and liabilities:		
Accounts receivable	(6,626)	(8,208)
Inventories	(1,283)	(5,984)
Accounts payable and other liabilities	84,523	30,157
Customer deposits	526	100
Net cash provided by operating activities	<u>\$ 302,447</u>	<u>\$ 299,670</u>
Reconciliation of cash:		
Cash and cash equivalents - unrestricted	\$ 162,555	\$ 69,259
Cash and cash equivalents – restricted	404,698	150,754
Cash and cash equivalents, end of year	<u>\$ 567,253</u>	<u>\$ 220,013</u>

The accompanying notes to financial statements are an integral part of this statement.



**WESTERN MASON COUNTY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

The financial statements of the Western Mason County Water District (“the District”) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body of governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below, and where appropriate, subsequent pronouncements will be referenced.

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

The Western Mason County Water District was incorporated as a public body in 1958 under Chapter 74 of the Kentucky Revised Statutes to provide water services to portions of Mason and Bracken Counties in Kentucky. The Kentucky Public Service Commission presently regulates the District.

Under Section 115 of the Internal Revenue Code of 1986, the District is exempt from income taxes; therefore, no provision has been made.

**Reporting Entity**

The District’s basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District’s reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Standards*, include whether:

- the District is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization’s board
- the District is able to impose its will on the organization
- the organization has the potential to impose financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, the District has no component units.

**Basis of Accounting**

The District’s operations are classified as an Enterprise Fund that accounts for the acquisition, operation, and maintenance of activities that are similar to a business. The Enterprise Fund is accounted for on the accrual basis of accounting. Revenues are recognized in the period earned, and expenses are recognized at the time liabilities are incurred. The Enterprise Fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an Enterprise Fund’s principal ongoing operations. The principal operating revenue of the District are charges to customers for sales and services. The District also recognizes as operating revenue connection fees intended to recover the costs of connecting new customers to the utility system. Operating expenses for an Enterprise Fund includes

the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. 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.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for account balances deemed not collectible, and the time period used to depreciate the capital assets. Actual results could differ from estimated amounts.

### **Assets, Liabilities, and Net Position**

*Cash and cash equivalents.* For purposes of reporting cash flows, cash and cash equivalents consist of cash on hand, cash on deposit with banks, and certificates of deposit with an original maturity of less than three months (including amounts held in restricted asset accounts).

*Receivables.* Customer accounts receivable reflect revenues earned or accrued during the period from customers of the water system. These accounts are stated at face value less an allowance for doubtful accounts. The balance of the allowance for doubtful accounts as of December 31, 2022 and 2021 was \$50,347 and \$50,347, respectively.

*Grants Receivable.* Grants receivable consists of amounts disbursed that have not yet been reimbursed with approved grant funds.

*Inventories.* Inventories are valued at cost (first-in, first-out method).

*Restricted Assets.* Certain proceeds of revenue bonds, as well as certain resources set aside for their payment, including reserve requirements, are classified as restricted assets on the statement of net position since their use is limited by applicable bond and note indentures.

*Capital Assets.* Expenditures for items having a useful life greater than one year are capitalized. Capital assets are stated at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method as follows:

Utility plant and system lines	25-40 years
Pumping equipment and meters	20 years
Furniture, fixtures and equipment	5-20 years

*Right-to-Use Assets.* The District has recorded right to use lease assets as a result of implementing GASB 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

*Long-Term Obligations.* Long-term liabilities reported in the statement of net position include principal outstanding on notes and bonds.

*Net Position.* Net position is reported in three categories: net position invested in capital assets; restricted net position; and unrestricted net position. Net position invested in capital assets, represents capital assets, less accumulated depreciation, less outstanding principal of related debt. Restricted net position reflect funds held in various reserve accounts to meet the various covenants as may be specified and defined in the revenue bond and note indentures or as deemed appropriate by management. All other net position is considered unrestricted.

## Capital Grants/Contributions

Grants that are restricted to the purchase of property, plant and equipment are recorded as capital contributions, per GASB 33. The District received capital grants of \$318,424 and \$238,970 for the years ended December 31, 2022 and 2021, respectively.

### Recent Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases* (“GASB 87”), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 was effective for the District beginning with its year ending December 31, 2022 and was applied retroactively by restating financial statements. The adoption of this standard did not have a material effect on the District's financial statements. As a result of the adoption of this standard, the District recorded a right to use asset and lease payable of \$5,703 as of December 31, 2021.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (“GASB 96”). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. The Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB 96 will be effective for the District beginning with its year ending December 31, 2023. Management is currently evaluating the impact of this Statement on its financial statements.

In May 2022, the GASB issued Statement No. 99, *Omnibus 2022* (“GASB 99”), to provide guidance addressing various accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements or during the due process on other pronouncements. GASB 99 addresses, among other matters:

- Accounting and financial reporting for exchange or exchange-like financial guarantees;
- Clarification of certain provisions of Statement No.:
  - 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments,
  - 87, Leases,
  - 94, Public-Private and Public-Public Partnership and Availability Payment Arrangements,
  - 96, Subscription-Based Information Technology Arrangements (SBITA);
- Replacing the original deadline for use of the London Interbank Offered Rate (LIBOR) as a benchmark interest rate for hedges of interest rate risk of taxable debt with a deadline for when LIBOR ceases to be determined by the ICE Benchmark Administration using the methodology in place as of December 31, 2021;
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP);
- Disclosures related to non-monetary transactions; and
- Pledges of future revenues when resources are not received by the pledging government.

Requirements that relate to the extension of the use of LIBOR, accounting for SNAP distributions, disclosures for non-monetary transactions, pledges of future revenues by pledging governments, clarifications of certain provisions in Statement No. 34, and terminology updates were effective upon issuance. Requirements related to leases, public-public and public-private partnerships (PPPs), and SBITAs will be effective for the District beginning with its year ending December 31, 2023. Requirements related to financial guarantees and derivative instruments will be effective for the District beginning with its year ending December 31, 2024. Adoption of the provisions required upon issuance of this statement did not have a material effect on the District's financial statements. Management is currently evaluating the impact of the remaining provisions of this Statement on its financial statements.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections (an amendment of GASB Statement No. 62)* ("GASB 100"), which has as its primary objective to provide more straightforward guidance that is easier to understand and is more reliable, relevant, consistent, and comparable across governments for making decisions and assessing accountability. Improving the clarity of accounting and financial reporting requirements for accounting changes and error corrections will mean greater consistency in the application of these requirements in general.

GASB 100 prescribes accounting and financial reporting for each category of accounting change and error corrections, requiring that:

- Changes in accounting principle and error corrections be reported retroactively by restating prior periods;
- Changes in accounting estimate be reported prospectively by recognizing the change in the current period; and
- Changes to and within the financial reporting entity be reported by adjusting beginning balances of the current period.
- Requires that governments disclose the effects of each accounting change and error correction on beginning balances in a tabular format.

The requirements of GASB 100 will be effective for accounting changes and error corrections made by the District beginning with its year ending December 31, 2024. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences* ("GASB 101"), which supersedes the guidance in Statement No. 16, *Accounting for Compensated Absences*, issued in 1992. GASB 101 aligns recognition and measurement guidance for all types of compensated absences under a unified model. It also requires that a liability for specific types of compensated absences not be recognized until the leave is used. Additionally, it establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. For example, a liability for leave that has not been used would be recognized if the leave:

- Is attributable to services already rendered;
- Accumulates; and
- Is more likely than not to be used for time off or otherwise paid or settled. Some exceptions to this general rule include parental leave, military leave and jury duty leave for which a liability would not be recognized until the leave commences.

Additionally, GASB 101 (1) provides an alternative to the existing requirement to disclose the gross annual increases and decreases in long-term liability for compensated absences, allowing governments to disclose only the net annual change in the liability as long as it is identified as such; and (2) removes the disclosure of the government funds used to liquidate the liability for compensated absences. The requirements of GASB 101 will be effective for the District beginning with its year ending December 31, 2024. Management is currently evaluating the impact of this Statement on its financial statements.

## (2) CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's funds on deposit with the banks may not be returned to the District. The District's cash and cash equivalents consist of checking and savings accounts with local banks. This District does not have a deposit policy for custodial credit risk. At December 31, 2022, the carrying amount of the District's deposits was \$567,253 and the bank balances totaled \$568,308. The bank balances are categorized as follows:

Amount insured by the FDIC	\$ 250,000
Uncollateralized	<u>318,308</u>
Total	<u>\$ 568,308</u>

## (3) RESTRICTED ASSETS

### BOND FUND REQUIREMENTS

In connection with the USDA bond issues, the District is required to make monthly deposits into sinking, reserve and short-lived asset funds. The balance of the sinking fund at December 31, 2022 was \$183,710, which exceeded the required balance of \$182,505. The balance of the reserve fund at December 31, 2022 was \$169,037, which was \$7,285 less than the required balance of \$176,322. The balance of the short-lived assets fund at December 31, 2022 was \$30,395, which exceeded the required balance of \$30,382.

### MAINTENANCE AND REPLACEMENT RESERVE REQUIREMENTS

In connection with the note payable with the Kentucky Infrastructure Authority, the District is required to make annual deposits of \$1,250 into a maintenance and replacement reserve account until a balance of \$12,500 has been established. Amounts in these funds can be used for extraordinary maintenance expenses related to the project. The balance at December 31, 2022 was \$0-, which was less than the required balance of \$12,500.

As of December 31, 2022 and 2021, restricted cash was as follows:

	<u>2022</u>	<u>2021</u>
Sinking Fund	\$ 183,710	\$ 318
Reserve Account	169,037	114,966
Customer Deposits	21,056	20,812
Short-Lived Assets	30,395	14,158
Construction Fund	500	500
	<u>\$ 404,698</u>	<u>\$ 150,754</u>

## (4) CAPITAL ASSETS

*Changes in Capital Assets.* The following is a summary of changes in capital assets and accumulated depreciation for the year ended December 31, 2022 and 2021:

<u>December 31, 2022</u>	<u>Balance</u>			<u>Balance</u>
Non-depreciable:	<u>Jan. 1, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec. 31, 2022</u>
Land	\$ 206,996	\$ -	\$ -	\$ 206,996
Construction in progress	-	223,638	223,638	-
Depreciable:				
Plant in service	8,107,779	251,151	-	8,358,930
Other depreciable assets	138,034	-	-	138,034
	<u>8,452,809</u>	<u>474,789</u>	<u>223,638</u>	<u>8,703,960</u>
Accumulated depreciation	3,300,701	230,246	-	3,530,947
	<u>\$ 5,152,108</u>	<u>\$ 244,543</u>	<u>\$ 223,638</u>	<u>\$ 5,173,013</u>

<u>December 31, 2021</u>	Balance			Balance
Non-depreciable:	Jan. 1, 2021	Additions	Deletions	Dec. 31, 2021
Land	\$ 206,996	\$ -	\$ -	\$ 206,996
Construction in progress	681,649	1,026,576	1,708,225	-
Depreciable:				
Plant in service	6,259,091	1,848,688	-	8,107,779
Other depreciable assets	138,034	-	-	138,034
	<u>7,285,770</u>	<u>2,875,264</u>	<u>1,708,225</u>	<u>8,452,809</u>
Accumulated depreciation	3,076,236	224,465	-	3,300,701
	<u>\$ 4,209,534</u>	<u>\$ 2,650,799</u>	<u>\$ 1,708,225</u>	<u>\$ 5,152,108</u>

#### (5) RIGHT-TO-USE ASSETS

The District has recorded a right-to-use leased asset. The asset is a right-to-use asset for equipment. The related lease is discussed in the Leases subsection of the Long-Term Debt section of these notes. The right-to-use leased asset is amortized on a straight-line basis over the term of the related lease.

Right-to-use asset activity for the year ended December 31, 2022, was as follows:

	January 1, 2022	Additions	Deductions	December 31, 2022
Intangible right to use assets	\$ 10,064	\$ -	\$ -	\$ 10,064
Totals at historical cost	10,064	-	-	10,064
Less: accumulated amortization	(4,361)	(2,013)	-	(6,374)
Right to Use Leased Assets - Net	<u>\$ 5,703</u>	<u>\$ (2,013)</u>	<u>\$ -</u>	<u>\$ 3,690</u>

#### (6) LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the District for the year ended December 31, 2022 and 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>December 31, 2022:</u>					
Notes payable	\$ 126,131	\$ -	\$ 11,515	\$ 114,616	\$ 11,745
Bonds payable	3,639,500	-	-	3,639,500	94,500
Total long-term debt	<u>\$ 3,765,631</u>	<u>\$ -</u>	<u>\$ 11,515</u>	<u>\$ 3,754,116</u>	<u>\$ 106,245</u>
<u>December 31, 2021:</u>					
Notes payable	\$ 189,727	\$ -	\$ 63,596	\$ 126,131	\$ 11,514
Bonds payable	2,959,931	834,569	155,000	3,639,500	-
Total long-term debt	<u>\$ 3,149,658</u>	<u>\$ 834,569</u>	<u>\$ 218,596</u>	<u>\$ 3,765,631</u>	<u>\$ 11,514</u>

Notes payable included in long-term debt in the accompanying financial statements includes the following at December 31, 2022 and 2021:

	2022	2021
\$500,000 note payable to the Kentucky Infrastructure Authority, semi-annual Payments of \$6,989, interest at 2.0%, \$270,500 principal forgiven, with an original term of 20 years, secured by water revenues.	\$ 114,616	\$ 126,131
Total Notes Payable	<u>\$ 114,616</u>	<u>\$ 126,131</u>

The annual requirements to amortize the notes payable as of December 31, 2022 (including interest payments) are as follows:

Year Ending December 31,	Principal	Interest	Fees	Total
2023	\$ 11,745	\$ 2,234	\$ 279	\$ 14,258
2024	11,981	1,998	250	14,229
2025	12,222	1,757	220	14,199
2026	12,468	1,511	189	14,168
2027	12,719	1,261	157	14,137
2028-31	53,481	2,434	305	56,220
	<u>\$ 114,616</u>	<u>\$ 11,195</u>	<u>\$ 1,400</u>	<u>\$ 127,211</u>

Bonds Payable included in long-term debt in the accompanying financial statements includes the following at December 31, 2022 and 2021:

	2022	2021
\$350,000 Water Revenue Bonds, 1988 series, maturing through May 1, 2028, with interest at 5.75%	\$ 113,000	\$ 113,000
\$201,000 Water Revenue Bonds, 1997 series, maturing through October 7, 2036, with interest at 4.88%	115,000	115,000
\$258,000 Water Revenue Bonds, 2001 series, maturing through January 1, 2042, with interest at 4.75%	185,000	185,000
\$1,158,000 Water Revenue Bonds, 2007 series A, maturing through May 8, 2048, with interest at 4.375%	948,000	948,000
\$243,000 Water Revenue Bonds, 2007 series B, maturing through May 8, 2048, with interest at 4.125%	196,500	196,500
\$700,000 Water Revenue Bonds, 2010 series, maturing through January 1, 2050, with interest at 3.00%	593,500	593,500
\$1,515,000 Water Revenue Bonds, 2020 series, maturing through January 1, 2061, with interest at 1.75%	1,488,500	1,488,500
Total Bonds Payable	<u>\$ 3,639,500</u>	<u>\$ 3,639,500</u>

The annual requirements to amortize the bonds as of December 31, 2022 (including interest payments) are as follows:

Year	Principal	Interest	Total
2023	\$ 94,500	\$ 114,099	\$ 208,599
2024	99,000	110,589	209,589
2025	101,500	106,880	208,380
2026	107,000	103,064	210,064
2027	110,000	98,996	208,996
2028-2032	518,500	436,532	955,032
2033-2037	575,500	343,905	919,405
2038-2042	621,500	242,347	863,847
2043-2047	666,000	136,477	802,477
2048-2052	310,000	53,440	363,440
2053-2057	235,000	28,008	263,008
2058-2061	201,000	7,055	208,055
Totals	<u>\$ 3,639,500</u>	<u>\$ 1,781,392</u>	<u>\$ 5,420,892</u>

## Leases

The District has entered into an agreement to lease a copier. In accordance with GASB 87, the lease has been recorded at the present value of the future minimum lease payments as of the date of inception.

1. A lease agreement was executed on November 21, 2019, to lease a copier and requires 60 monthly payments of \$175 per month. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 1.75%, which is the District's incremental borrowing rate. As a result, the District has recorded a right to use asset.

The future minimum lease obligations and net present value of these minimum lease payments as of December 31, 2022, were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2023	\$ 2,051	\$ 50	\$ 2,101
2024	1,736	14	1,750
	<u>\$ 3,787</u>	<u>\$ 64</u>	<u>\$ 3,851</u>

## **(7) CONCENTRATIONS OF CREDIT**

All of the District's revenues, most of which are comprised of residential billings, are generated by customers located in its two-county area.

## **(8) RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The District provides for risk financing by purchasing coverage from commercial insurance companies.

## **(9) COMMITMENTS AND CONTINGENCIES**

The District is subject to certain legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.

## **(10) PRIOR PERIOD ADJUSTMENT**

During 2022, the District discovered that previously reported accounts receivable included amounts billed for sewer billings on behalf of the sanitation district. Therefore, the District restated the following line items to properly reflect only the water related accounts receivable as of and for the year ended December 31, 2021:

	<u>As previously reported</u>	<u>As restated</u>
<i>Statements of Net Position:</i>		
Accounts Receivable	\$ 183,752	\$ 116,992
Unrestricted Net Position	106,632	39,872
<i>Statements of Revenues, Expenses and Changes In Net Position:</i>		
Net Position, Beginning of Year	1,431,050	1,364,290

## **(11) ECONOMIC UNCERTAINTIES**

As a result of the spread of the COVID-19 Coronavirus, economic uncertainties have arisen which are likely to negatively impact future revenues. Other financial impact could occur, but such potential impact is unknown at this time.



## **OTHER INFORMATION**

**WESTERN MASON COUNTY WATER DISTRICT  
OTHER INFORMATION REQUIRED BY RURAL DEVELOPMENT  
DECEMBER 31, 2022**

<u>INSURANCE COVERAGE</u>	<u>AMOUNT</u>	<u>EXPIRATION DATE OF POLICY</u>
General Liability	\$ 3,000,000	7/1/2023
Property – Building and Contents	\$ 1,962,000	7/1/2023
Equipment and Vehicles	\$ 3,000,000	7/1/2023
Public Officials Fidelity Bond	\$ 1,000/each	Indefinite
Encroachment Bond	\$ 6,500	6/24/2023
Workers Compensation	Statutory	7/1/2023
Treasurer Bond	\$ 250,000	Indefinite

**COMMISSIONER**

**TERM EXPIRES**

Larry Redden, Chairman  
Pam Carpenter, Secretary  
Jerry Fields, Treasurer

6/2023  
7/2026  
6/2025




**K**elley **G**alloway  
**S**mith **G**oolsby, PSC

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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***

Board of Commissioners  
Western Mason County Water District  
Dover, Kentucky

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 the Western Mason County Water District (the "District") as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 16, 2023.

**Report on Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 or significant deficiencies may exist that were not identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

*Kelley Ballaway Smith Hooley, PC*

Ashland, Kentucky  
August 16, 2023