

WESTERN MASON COUNTY WATER DISTRICT

**FINANCIAL STATEMENTS AND OTHER INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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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 years ended December 31, 2023 and 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, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years 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 opinion.

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 opinion. 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 September 26, 2024, 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 Hallaway Smith Goolsby, PSC

Ashland, Kentucky
September 26, 2024

**WESTERN MASON COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2023 AND 2022**

	2023	2022
ASSETS		
Current Assets:		
Cash and cash equivalents - unrestricted	\$ 3,657	\$ 162,555
Accounts receivable (net of allowance for doubtful accounts of \$61,695 and \$50,347, respectively)	107,049	123,618
Inventory	36,263	33,732
Total current assets	146,969	319,905
Noncurrent Assets:		
Cash and cash equivalents – restricted	424,111	404,698
Capital Assets:		
Non-depreciable	257,446	206,996
Depreciable, net of accumulated depreciation	4,854,582	4,966,017
Right-to-use assets	1,382	3,690
Total noncurrent assets	5,537,521	5,581,401
Total assets	\$ 5,684,490	\$ 5,901,306
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 38,848	\$ 207,326
Accrued payroll and related liabilities	27,503	22,184
Accrued taxes	10,529	3,135
Accrued interest	85,242	88,196
Customer deposits	19,186	18,860
Leases payable – current	1,736	2,051
Notes payable – current	11,981	11,745
Bonds payable – current	99,000	94,500
Total current liabilities	294,025	447,997
Noncurrent liabilities:		
Leases payable – net of current portion	-	1,736
Notes payable – net of current portion	90,890	102,871
Bonds payable – net of current portion	3,446,000	3,545,000
Total noncurrent liabilities	3,536,890	3,649,607
Total liabilities	3,830,915	4,097,604
NET POSITION		
Net investment in capital assets	1,464,157	1,418,897
Restricted for:		
Debt service	184,200	183,710
Customer deposits	21,674	21,056
Capital projects and replacement	218,237	199,932
Unrestricted	(34,693)	(19,893)
Total net position	1,853,575	1,803,702
Total liabilities and net position	\$ 5,684,490	\$ 5,901,306

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

**WESTERN MASON COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
OPERATING REVENUES		
Water sales	\$ 795,731	\$ 794,268
Service charges and other revenue	24,719	35,777
Total operating revenues	820,450	830,045
OPERATING EXPENSES		
Salaries and wages	274,838	309,815
Employee benefits	83,823	75,356
Accounting and legal	24,809	33,408
Depreciation	228,892	230,246
Insurance	15,876	14,797
Materials and supplies	39,664	27,074
Office and utility expense	60,374	43,902
Purchased power	50,026	51,868
Regulatory commission expense	3,847	4,004
Repairs and maintenance	27,819	24,154
Vehicle expense	5,780	6,689
Water testing	3,865	2,146
Bad debt expense	11,348	-
Other	29,025	11,525
Total operating expenses	859,986	834,984
OPERATING INCOME (LOSS)	(39,536)	(4,939)
NON-OPERATING REVENUES (EXPENSES)		
Sewer billing fees	11,940	11,940
Interest income	180	92
Interest expense	(113,311)	(90,759)
Total non-operating revenues (expenses)	(101,191)	(78,727)
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(140,727)	(83,666)
Capital grants	177,100	318,424
Customer tap fees	13,500	6,000
INCREASE IN NET POSITION	49,873	240,758
NET POSITION, BEGINNING OF YEAR	1,803,702	1,562,944
NET POSITION, END OF YEAR	\$ 1,853,575	\$ 1,803,702

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

**WESTERN MASON COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 833,391	\$ 805,014
Cash payments to suppliers for goods and services	(515,917)	(214,936)
Cash payments to employees	(269,519)	(287,631)
Net cash provided by operating activities	47,955	302,447
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on capital debt	(106,245)	(11,515)
Interest paid on capital debt	(116,008)	(28,997)
Purchases of capital assets	(167,907)	(251,151)
Contributed capital – tap fees	13,500	6,000
Contributed capital – grants	177,100	318,424
Net receipts from sanitation district	11,940	11,940
Net cash provided by (used for) capital and related financing activities	(187,620)	44,701
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	180	92
Net cash provided by investing activities	180	92
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(139,485)	347,240
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	567,253	220,013
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 427,768	\$ 567,253
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (39,536)	\$ (4,939)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	228,892	230,246
Bad debt expense	11,348	-
Changes in assets and liabilities:		
Accounts receivable	5,221	(6,626)
Inventories	(2,531)	(1,283)
Accounts payable and other liabilities	(155,765)	84,523
Customer deposits	326	526
Net cash provided by operating activities	\$ 47,955	\$ 302,447
Reconciliation of cash:		
Cash and cash equivalents - unrestricted	\$ 3,657	\$ 162,555
Cash and cash equivalents – restricted	424,111	404,698
Cash and cash equivalents, end of year	\$ 427,768	\$ 567,253

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

**WESTERN MASON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

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, 2023 and 2022 was \$61,695 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 in accordance with 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 investment 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 \$177,100 and \$318,424 for the years ended December 31, 2023 and 2022, respectively.

Recent Accounting Pronouncements

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 was effective for the District beginning with its year ending December 31, 2023. The adoption of this standard did not have a material effect on the District's 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 was 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 thru December 31, 2023 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, 2023, the carrying amount of the District’s deposits was \$427,768 and the bank balances totaled \$425,998. The bank balances are categorized as follows:

Amount insured by the FDIC	\$ 250,000
Uncollateralized	175,998
Total	<u>\$ 425,998</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, 2023 was \$184,200, which exceeded the required balance of \$184,071. The balance of the reserve fund at December 31, 2023 was \$187,808, which exceeded the required balance of \$183,342. The balance of the short-lived assets fund at December 31, 2023 was \$17,429, which was \$4,687 less than the required balance of \$22,116.

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, 2023 was \$12,500, which was equal to the required balance of \$12,500.

RESTRICTED CASH

As of December 31, 2023 and 2022, restricted cash was as follows:

	2023	2022
Sinking Fund	\$ 184,200	\$ 183,710
Reserve Accounts	200,308	169,037
Customer Deposits	21,674	21,056
Short-Lived Assets	17,429	30,395
Construction Fund	500	500
	<u>\$ 424,111</u>	<u>\$ 404,698</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, 2023 and 2022:

<u>December 31, 2023</u>	Balance Jan. 1, 2023	Additions	Deletions	Balance Dec. 31, 2023
Non-depreciable:				
Land	\$ 206,996	\$ 50,450	\$ -	\$ 257,446
Depreciable:				
Plant in service	8,358,930	104,677	-	8,463,607
Other depreciable assets	138,034	12,780	-	150,814
	<u>8,703,960</u>	<u>167,907</u>	<u>-</u>	<u>8,871,867</u>
Accumulated depreciation	3,530,947	228,892	-	3,759,839
	<u>\$ 5,173,013</u>	<u>\$ (60,985)</u>	<u>\$ -</u>	<u>\$ 5,112,028</u>

<u>December 31, 2022</u>	Balance Jan. 1, 2022	Additions	Deletions	Balance Dec. 31, 2022
Non-depreciable:				
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>

(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, 2023 and 2022, was as follows:

	January 1, 2023	Additions	Deductions	December 31, 2023
Right-to-use assets	\$ 10,064	\$ -	\$ -	\$ 10,064
Totals at historical cost	10,064	-	-	10,064
Less: accumulated amortization	(6,374)	(2,308)	-	(8,682)
Right-to-Use Assets – Net	<u>\$ 3,690</u>	<u>\$ (2,308)</u>	<u>\$ -</u>	<u>\$ 1,382</u>

	January 1, 2022	Additions	Deductions	December 31, 2022
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 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, 2023 and 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
December 31, 2023:					
Notes payable	\$ 114,616	\$ -	\$ 11,745	\$ 102,871	\$ 11,981
Bonds payable	3,639,500	-	94,500	3,545,000	99,000
Total long-term debt	<u>\$ 3,754,116</u>	<u>\$ -</u>	<u>\$ 106,245</u>	<u>\$ 3,647,871</u>	<u>\$ 110,981</u>
December 31, 2022:					
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>

Notes payable included in long-term debt in the accompanying financial statements includes the following at December 31, 2023 and 2022:

	2023	2022
\$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.	\$ 102,871	\$ 114,616
Total Notes Payable	<u>\$ 102,871</u>	<u>\$ 114,616</u>

The annual requirements to amortize the notes payable as of December 31, 2023 (including interest payments) are as follows:

Year Ending December 31,	Principal	Interest	Fees	Total
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	1,260	157	14,136
2028	12,974	1,005	126	14,105
2029-31	40,507	1,431	179	42,117
	<u>\$ 102,871</u>	<u>\$ 8,962</u>	<u>\$ 1,121</u>	<u>\$ 112,954</u>

Bonds Payable included in long-term debt in the accompanying financial statements includes the following at December 31, 2023 and 2022:

	2023	2022
\$350,000 Water Revenue Bonds, 1988 series, maturing through May 1, 2028, with interest at 5.75%	\$ 97,000	\$ 113,000
\$201,000 Water Revenue Bonds, 1997 series, maturing through October 7, 2036, with interest at 4.88%	109,000	115,000
\$258,000 Water Revenue Bonds, 2001 series, maturing through January 1, 2042, with interest at 4.75%	179,000	185,000
\$1,158,000 Water Revenue Bonds, 2007 series A, maturing through May 8, 2048, with interest at 4.375%	926,000	948,000
\$243,000 Water Revenue Bonds, 2007 series B, maturing through May 8, 2048, with interest at 4.125%	192,000	196,500
\$700,000 Water Revenue Bonds, 2010 series, maturing through January 1, 2050, with interest at 3.00%	580,500	593,500
\$1,515,000 Water Revenue Bonds, 2020 series, maturing through January 1, 2061, with interest at 1.75%	<u>1,461,500</u>	<u>1,488,500</u>
Total Bonds Payable	<u>\$ 3,545,000</u>	<u>\$ 3,639,500</u>

The annual requirements to amortize the bonds as of December 31, 2023 (including interest payments) are as follows:

Year	Principal	Interest	Total
2024	\$ 99,000	\$ 107,551	\$ 206,551
2025	101,500	103,844	205,344
2026	107,000	100,028	207,028
2027	110,000	95,959	205,959
2028	114,000	91,776	205,776
2029-2033	513,500	407,771	921,271
2034-2038	585,000	314,079	899,079
2039-2043	628,000	212,827	840,827
2044-2048	613,000	107,980	720,980
2049-2053	283,500	46,018	329,518
2054-2058	239,000	23,861	262,861
2059-2061	151,500	3,970	155,470
Totals	<u>\$ 3,545,000</u>	<u>\$ 1,615,664</u>	<u>\$ 5,160,664</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 was the District's incremental borrowing rate at lease inception. 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, 2023, were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2024	\$ 1,736	\$ 14	\$ 1,750
	<u>\$ 1,736</u>	<u>\$ 14</u>	<u>\$ 1,750</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.

OTHER INFORMATION

**WESTERN MASON COUNTY WATER DISTRICT
OTHER INFORMATION REQUIRED BY RURAL DEVELOPMENT
DECEMBER 31, 2023**

<u>INSURANCE COVERAGE</u>	<u>AMOUNT</u>	<u>EXPIRATION DATE OF POLICY</u>
General Liability	\$ 3,000,000	7/1/2024
Property – Building and Contents	\$ 2,913,000	7/1/2024
Equipment and Vehicles	\$ 3,000,000	7/1/2024
Public Officials Fidelity Bond	\$ 1,000/each	Indefinite
Encroachment Bond	\$ 6,500	6/24/2024
Workers Compensation	Statutory	7/1/2024
Treasurer Bond	\$ 250,000	Indefinite

COMMISSIONER

TERM EXPIRES

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

6/2027
7/2026
6/2025



Kelley **G**alloway
Smith **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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 26, 2024.

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 Galloway Smith, CPA, PSC

Ashland, Kentucky
September 26, 2024