

**WESTERN MASON COUNTY WATER DISTRICT
DOVER, KENTUCKY
AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2016 and 2015**

WESTERN MASON COUNTY WATER DISTRICT
DOVER, KENTUCKY
Years Ended December 31, 2016 and 2015

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DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.I.C.P.A.

115 SOUTH MAIN CROSS
FLEMINGSBURG, KY 41041
(606) 845-5210

550 W. FIRST ST., PO BOX 449
MOREHEAD, KY 40351
(606) 784-4451
(606) 784-8224 (FAX)

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Western Mason County Water District, Kentucky as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Western Mason County Water District, Kentucky, as of December 31, 2016, 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 September 22, 2017, on our consideration of the Western Mason County Water District, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Western Mason County Water District, Kentucky's internal control over financial reporting and compliance.

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

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

September 22, 2017

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

ASSETS	2016	2015
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$ 7,678	\$ 12,668
Accounts receivable Customers-(Less Allowance for Doubtful Accounts of \$50,347)	131,172	105,069
Inventory	46,836	50,704
Total Current Assets	<u>185,686</u>	<u>168,441</u>
Noncurrent Assets		
Cash and Cash Equivalents - Restricted	96,212	74,131
Bond Issuance Cost	-	-
Capital Assets:		
Nondepreciable	206,996	206,996
Depreciable, Net of Accumulated Deprecation	3,823,730	3,987,802
Total Noncurrent Assets	<u>4,126,938</u>	<u>4,268,929</u>
TOTAL ASSETS	<u>\$ 4,312,622</u>	<u>\$ 4,437,368</u>
 LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 32,124	\$ 28,973
Accrued Taxes	12,606	15,890
Accrued Interest	92,261	96,539
Deferred Revenue	2,393	2,198
Customer Deposits	21,975	19,925
Current Portion of Long-Term Debt	70,273	72,351
Total Current Liabilities	<u>231,632</u>	<u>235,876</u>
Noncurrent Liabilities		
Notes Payable	234,276	251,926
Bonds Payable	2,448,000	2,500,000
Total Noncurrent Liabilities	<u>2,682,276</u>	<u>2,751,926</u>
TOTAL LIABILITIES	2,913,908	2,987,802
NET-POSITION		
Investment in Capital Assets, Net of Related Debt	\$ 1,278,177	1,370,521
Restricted for:		
Debt Service	80,198	60,018
Customer Deposits	14,982	13,061
Capital Projects & Replacement	1,032	1,051
Unrestricted	24,325	4,914
TOTAL NET POSITION	<u>\$ 1,398,714</u>	<u>\$ 1,449,565</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,

	2016	2015
OPERATING INCOME		
Water sales	\$ 651,613	\$ 546,464
Service Charges and Other revenue	<u>39,501</u>	<u>26,987</u>
Total operating income	<u>691,114</u>	<u>573,451</u>
OPERATING EXPENSES		
Accounting and Legal	18,782	19,104
Amortization	-	-
Bad Debt Expense	-	-
Contracted Services	7,600	8,600
Depreciation	166,322	168,847
Employee Benefits	62,247	54,630
Equipment Rental	-	1,003
Insurance	12,780	11,455
Materials & Supplies	22,016	17,509
Office and Utility Expense	42,561	34,529
Purchased Power	41,887	40,182
Purchased Water	11,060	16,665
Regulatory Commission Expense	1,099	1,350
Repairs and Maintenance	27,099	19,789
Salaries & Wages	197,390	175,845
Vehicle Expense	15,857	15,368
Water Testing	-	-
Total operating expense	<u>626,701</u>	<u>584,875</u>
OPERATING INCOME (LOSS)	64,413	(11,424)
Non-operating income (Expenses)		
Sewer Billing Fees	\$ 11,940	\$ 11,765
Customer Tap Fees	2,250	7,500
Interest income	3	3
Interest expense	(129,459)	(114,024)
DOT Project Flow Through Income	25,612	21,805
DOT Project Flow Through Expense	(25,612)	(21,805)
Gain (Loss) on Disposal of Assets	-	-
Total Non-Operating Income (Expense)	<u>(115,266)</u>	<u>(94,756)</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(50,852)	(106,180)
Capital Grants	-	-
CHANGE IN NET POSITION	(50,852)	(106,180)
NET POSITION, BEGINNING OF YEAR	<u>1,449,565</u>	<u>1,555,746</u>
	-	-
NET POSITION, END OF YEAR	<u>\$ 1,398,714</u>	<u>\$ 1,449,565</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,

	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 665,011	\$ 554,659
Payments to Suppliers	(261,285)	(222,250)
Payments to Employees	(197,390)	(175,845)
	<hr/>	<hr/>
Net Cash (Used) Provided by Operating Activities	206,336	156,564
CASH FLOW FROM INVESTING ACTIVITIES		
Interest Income	<hr/> 3	<hr/> 3
Net Cash (Used) Provided by Investing Activities	<hr/> 3	<hr/> 3
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Loan	-	-
Principal Paid on Capital Debt	(71,728)	(58,217)
Purchases of Capital Assets	(2,250)	(11,100)
Contributed Capital-Tap Fees	2,250	7,500
Contributed Capital- Federal Grants	-	-
Net Receipts from Sanitation District	11,940	11,765
Interest Paid on Capital Debt	<hr/> (129,459)	<hr/> (114,024)
Net cash (Used) Provided by Financing Activities	<hr/> (189,247)	<hr/> (164,076)
NET INCREASE (DECREASE) IN CASH	17,092	(7,509)
Cash and Cash Equivalents - At beginning of year	<hr/> 86,799	<hr/> 94,309
CASH AND CASH EQUIVALENTS - AT END OF YEAR	<hr/> \$ 103,890	<hr/> \$ 86,799
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 64,413	\$ (11,424)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	166,322	168,847
Amortization Expense	-	-
Change in Assets and Liabilities:		
Accounts Receivable, Net	(26,103)	(18,792)
Inventories	3,868	7,420
Accounts Payable and Other Payables	(4,214)	8,463
Customer Deposits	2,050	2,050
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	<hr/> \$ 206,336	<hr/> \$ 156,564

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, 2016 and 2015

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, 2016 and 2015

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 statements include no provision for income taxes.

Use of Estimates

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

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, 2016 and 2015**

Net Position

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

NOTE 2: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does not have a deposit policy for custodial credit risk. As of December 31, 2013 all of the District's deposits were covered by Federal Depository Insurance Corporation (FDIC) insurance.

NOTE 3: RETIREMENT PLAN

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

NOTE 4: CHANGE IN ACCOUNTING PRINCIPLE

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

NOTE 5: RESERVES

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

A. SINKING FUND

On or before the 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, 2016 and 2015

- 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, 2016 was \$139,905. The District had set aside \$ 80,198 at December 31, 2016 into a restricted account, resulting in the account being under-funded by \$59,707.

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, 2016 was \$ 141,440. District had set aside \$1,031 at December 31, 2016 into a restrict account, and therefore the account is under-funded by \$ 140,409.

NOTE 6: RISK MANAGEMENT

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

WESTERN MASON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 4: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2016 was as follows:

Business-Type Activities	Balance			Balance
	Jan. 1, 2016	Additions	Deductions	
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	\$ 6,166,197	\$ 2,250	\$ -	6,168,447
Other Depreciable Assets	67,860	-	-	67,860
Total Capital Assets, Being Depreciated	6,234,057	2,250	-	6,236,307
Less accumulated depreciation:				
Plant in Service	2,024,920	161,201	-	2,186,121
Other Depreciable Assets	221,335	5,121	-	226,456
Total accumulated depreciation	2,246,255	166,322	-	2,412,577
Total Capital Assets, Being Depreciated, Net	3,987,802	(164,072)	-	3,823,730
Business-Type Activities Capital Assets - Net	\$ 4,194,798	\$ (164,072)	\$ -	\$ 4,030,726

Capital asset activity for the fiscal year ended December 31, 2015 was as follows:

Business-Type Activities	Balance			Balance
	Jan. 1, 2015	Additions	Deductions	
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	6,158,697	7,500	-	6,166,197
Other Depreciable Assets	64,260	3,600	-	67,860
Total Capital Assets, Being Depreciated	6,222,957	11,100	-	6,234,057
Less accumulated depreciation:				
Plant in Service	1,862,334	162,586	-	2,024,920
Other Depreciable Assets	215,074	6,261	-	221,335
Total accumulated depreciation	2,077,408	168,847	-	2,246,255
Total Capital Assets, Being Depreciated, Net	4,145,549	(157,747)	-	3,987,802
Business-Type Activities Capital Assets - Net	\$ 4,352,545	\$ (157,747)	\$ -	\$ 4,194,798

WESTERN MASON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 8: NOTES PAYABLE

The following is a summary of Notes Payable for the year ended December 31, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Loan-Bank of Maysville- \$100,150, Interest rate 4.0%, due 01/19/2024 Annual payments 01/19	\$ 79,141	-	\$ 6,977	\$ 72,165
Loan-Kentucky Infrastructure Authority (KIA) Interest rate- 2.0%, due 12/1/31 Semi-annual payments of \$6,989 beginning in 2012	195,636	-	15,251	180,385
TOTAL NOTES PAYABLE	<u>\$ 274,778</u>	<u>\$ -</u>	<u>\$ 22,228</u>	<u>\$ 252,549</u>
			Less Current Maturities:	(18,276)
			Total	<u>\$ 234,273</u>

NOTE 9: BONDS PAYABLE

The following is a summary of revenue bonds payable for the year ended December 31, 2016.
The revenues of the District are pledged as collateral for the following debt:

	<u>Rate</u>	<u>Original Issue</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
1988 Series	5.75%	\$ 350,000	5/1/2028	\$ 206,000	\$ -	\$ 11,000	\$ 195,000
1997 Series	4.88%	201,000	10/7/2036	151,000		4,500	146,500
2001 Series	4.75%	258,000	1/11/2042	220,000		4,500	215,500
2007 Series	4.25%	1,401,000	5/8/2048	1,300,500		19,500	1,281,000
2010 Series	3.50%	700,000	1/1/2050	672,000		10,000	662,000
				<u>\$2,549,500</u>	<u>\$ -</u>	<u>\$ 49,500</u>	<u>\$ 2,500,000</u>
							(52,000)
							<u>\$ 2,448,000</u>
							Less: Current Maturities
							Total

The following is a schedule of long-term debt maturities at December 31, 2016:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	52,200	103,953	156,153
2018	53,500	101,627	155,127
2019	56,000	99,240	155,240
2020	59,000	96,729	155,729
2021	62,500	94,077	156,577
2022-2026	357,000	425,539	782,539
2027-2031	372,500	341,201	713,701
2032-2036	405,000	263,183	668,183
2037-2041	436,000	177,710	613,710
2042-2046	454,500	78,080	532,580
2047-2050	192,000	22,954	214,954
	<u>2,500,000</u>	<u>1,604,293</u>	<u>4,304,493</u>

SUPPLEMENTAL INFORMATION

**WESTERN MASON COUNTY WATER DISTRICT
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2016**

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	7/1/2017
Property - Building & Contents	\$ 1,962,000	7/1/2017
Equipment & Vehicles	\$ 3,000,000	7/1/2017
Fidelity Bond Public Officials Bond	\$1,000/each	Indefinite
Encroachment Bonds	\$ 177,000 5,000 6,500	10/7/2017 3/26/2017 6/24/2017
Workers Compensation	Statutory	7/1/2017
Treasurer Bond	\$ 250,000	Indefinite

<u>Commissioner</u>	<u>Term Expires</u>
Larry Redden, Chairman	6/2019
Pam Carpenter, Secretary	6/2018
Jerry Fields, Treasurer	6/2017

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.I.C.P.A.

115 SOUTH MAIN CROSS
FLEMINGSBURG, KY 41041
(606) 845-5210

550 W. FIRST ST., PO BOX 449
MOREHEAD, KY 40351
(606) 784-4451
(606) 784-8224 (FAX)

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS

To the Board of Commissioners
Western Mason Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards, applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Western Mason Water District as of and for the year ended December 31, 2016, 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 September 22, 2017.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. (2016-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Western Mason Water District, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Western Mason County Water District's response to the findings identified in our audit in the accompanying schedule of findings and responses, Western Mason County Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky
September 22, 2017

WESTERN MASON COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2016

PRIOR YEAR AUDIT FINDINGS AND RESPONSES

2015-1 LACK OF SEGREGATION OF DUTIES

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

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

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

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

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

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

2015-2 BOND RESERVE/SINKING FUND REQUIREMENTS

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

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

Cause: Bond covenants require monthly deposits.

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

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

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

WESTERN MASON COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2016

CURRENT YEAR AUDIT FINDINGS AND RESPONSES

SIGNIFICANT DEFICIENCY

2016-1 LACK OF SEGREGATION OF DUTIES

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

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

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

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

Recommendation: The Board of commissioners needs to provide more oversight and hire an external CPA firm to perform the accounting functions such as payroll and cutting checks.

Response: The Board will hire an external CPA firm to perform all accounting functions. Also the Board will provide more approvals for oversight functions.

2016-2 BOND RESERVE/SINKING FUND REQUIREMENTS

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

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

Cause: Bond covenants require monthly deposits.

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

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

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

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.I.C.P.A.

115 SOUTH MAIN CROSS
FLEMINGSBURG, KY 41041
(606) 845-5210

550 W. FIRST ST., PO BOX 449
MOREHEAD, KY 40351
(606) 784-4451
(606) 784-8224 (FAX)

ACCOUNTANT'S REPORT ON
MANAGEMENT POINTS

Board of Commissioners
Western Mason Water District
Dover, Kentucky

In planning and performing my audit of the basic financial statements of Western Mason Water District for the year ended December 31, 2016, I considered the District's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. This letter does not affect my report dated September 22, 2017, on the financial statements of the Western Mason Water District.

I will review the status of these comments and suggestions with various Water District personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Donna J. Hendrix, CPA

DONNA J. HENDRIX, CPA, PSC
Morehead, Kentucky

September 22, 2017

WESTERN MASON WATER DISTRICT, KENTUCKY
MANAGEMENT POINTS, RECOMMENDATIONS AND RESPONSES
Year Ended December 31, 2016

Current year Management Points

2016-3 Employee Time Card Approvals

Condition: The employee weekly time cards are not being approved by the Board.

Recommendation: The Board should be approving weekly time cards with a signature and date on each time card.

Response: The Board will implement new policy immediately.

2016-4 Credit Card Approvals

Condition: During the test of disbursements it was discovered that the credit card statements are not being reviewed and approved by a Board signature on each credit card statement and no receipts are attached.

Recommendation: The Board should review and approve each monthly credit card statement with a signature on each statement and review all receipts.

Response: The Board will implement new policy immediately.

2016-5 Employee Expense Report Approvals

Condition: During the test of disbursements it was discovered that the employee expense reports are not being filled out properly and are not being approved by the Board.

Recommendation: The employee expense reports should be signed by the employees and approved by the Board prior to being reimbursed.

Response: The Board will implement new policy immediately.

WESTERN MASON WATER DISTRICT, KENTUCKY
MANAGEMENT POINTS, RECOMMENDATIONS AND RESPONSES
Year Ended December 31, 2016

2016-6 Employee Meals Reimbursement Policy

- Condition: During the test of disbursements it was discovered that there was no policy detailing when employees were allowed to charge meals on company credit card.
- Recommendation: There should be a written policy on when the employees are allowed to charge meals on credit cards. There was no receipts for employee meals or who was in attendance for meals.
- Response: The Board will implement new policy immediately.

2016-7 Employee Mileage and Gas Charges on Company Credit Cards

- Condition: During the test of disbursements it was discovered that there was no policy detailing when employees were allowed to be reimbursed mileage or when gas should be charged on the company credit card.
- Recommendation: There should be a written policy on when the employees are allowed to request reimbursement for mileage and charge gas on company credit cards.
- Response: The Board will implement new policy immediately.

2016-8 Monthly Meeting Minutes Lacks Detail

- Condition: While reviewing the monthly meeting minutes I discovered that they were not detailed enough to get information of what went on during the year.
- Recommendation: The monthly meeting minutes should be much more detailed when written up.
- Response: The Board will begin this new procedure at the next meeting.