

**WESTERN MASON COUNTY WATER DISTRICT
DOVER, KENTUCKY
AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

WESTERN MASON COUNTY WATER DISTRICT
DOVER, KENTUCKY
Years Ended December 31, 2017 and 2016

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Financial Statements	
Statements of Net Position	3
Statements of Revenues, Expenses And Changes in Net Position	4
Statements of Cash Flows	5
Notes to the Financial Statements	6-11
<u>Supplemental Information</u>	
Supplemental Information Required by Rural Development	12
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	13-14
Schedule of Findings and Responses	15-20

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

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

131 E. ELECTRIC AVENUE
FLEMINGSBURG, KY 41041
(606)845-5210

550 W. FIRST ST., P.O. 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 business-type activities of Western Mason County Water District, Kentucky as of and for the year ended December 31, 2017 and 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, 2017, 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 August 13, 2018, 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

August 13, 2018

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

ASSETS	2017	2016
Current Assets		
Cash and Cash Equivalents - Unrestricted	\$ 20,960	\$ 7,678
Accounts receivable Customers-(Less Allowance for Doubtful Accounts of \$50,347)	130,686	131,172
Inventory	38,685	46,836
Total Current Assets	<u>190,331</u>	<u>185,686</u>
Noncurrent Assets		
Cash and Cash Equivalents - Restricted	147,862	96,212
Bond Issuance Cost	-	-
Capital Assets:		
Nondepreciable	206,996	206,996
Depreciable, Net of Accumulated Deprecation	3,718,710	3,823,730
Total Noncurrent Assets	<u>4,073,568</u>	<u>4,126,938</u>
TOTAL ASSETS	<u>\$ 4,263,897</u>	<u>\$ 4,312,622</u>
 LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 35,418	\$ 32,124
Accrued Taxes	10,437	12,606
Accrued Interest	90,489	92,261
Deferred Revenue	9,435	2,393
Customer Deposits	16,731	21,975
Current Portion of Loans Payable	18,650	
Current Portion of Long-Term Debt	53,500	70,273
Total Current Liabilities	<u>234,660</u>	<u>231,632</u>
Noncurrent Liabilities		
Notes Payable	259,150	234,276
Bonds Payable	2,394,500	2,448,000
Total Noncurrent Liabilities	<u>2,653,650</u>	<u>2,682,276</u>
TOTAL LIABILITIES	2,888,310	2,913,908
NET POSITION		
Investment in Capital Assets, Net of Related Debt	\$ 1,199,906	1,278,177
Restricted for:		
Debt Service	120,396	80,198
Customer Deposits	16,634	14,982
Capital Projects & Replacement	10,833	1,032
Unrestricted	27,819	24,325
TOTAL NET POSITION	<u>\$ 1,375,587</u>	<u>\$ 1,398,714</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,

	2017	2016
OPERATING INCOME		
Water sales	\$ 699,093	\$ 651,613
Service Charges and Other revenue	<u>23,931</u>	<u>39,501</u>
Total operating income	<u>723,024</u>	<u>691,114</u>
OPERATING EXPENSES		
Accounting and Legal	26,997	18,782
Amortization	-	-
Bad Debt Expense	-	-
Contracted Services	7,550	7,600
Depreciation	167,009	166,322
Employee Benefits	58,812	62,247
Equipment Rental	-	-
Insurance	9,689	12,780
Materials & Supplies	23,023	22,016
Office and Utility Expense	45,498	42,561
Purchased Power	43,592	41,887
Purchased Water	39,835	11,060
Regulatory Commission Expense	1,337	1,099
Repairs and Maintenance	30,488	27,099
Salaries & Wages	199,817	197,390
Vehicle Expense	15,212	15,857
Water Testing	-	-
Total operating expense	<u>668,857</u>	<u>626,701</u>
OPERATING INCOME (LOSS)	54,167	64,413
Non-operating income (Expenses)		
Sewer Billing Fees	\$ 11,940	\$ 11,940
Customer Tap Fees	4,500	2,250
Interest income	8	3
Interest expense	(92,820)	(129,459)
DOT Project Flow Through Income	7,042	25,612
DOT Project Flow Through Expense	(7,042)	(25,612)
Gain (Loss) on Disposal of Assets	<u>(920)</u>	<u>-</u>
Total Non-Operating Income (Expense)	<u>(77,293)</u>	<u>(115,266)</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(23,126)	(50,852)
Capital Grants	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	(23,126)	(50,852)
NET POSITION, BEGINNING OF YEAR	<u>1,398,714</u>	<u>1,449,565</u>
	-	-
NET POSITION, END OF YEAR	<u>\$ 1,375,587</u>	<u>\$ 1,398,714</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,

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts From Customers	\$ 718,267	\$ 665,011
Payments to Suppliers	(279,633)	(261,285)
Payments to Employees	(207,017)	(197,390)
	<hr/>	<hr/>
Net Cash (Used) Provided by Operating Activities	231,617	206,336
CASH FLOW FROM INVESTING ACTIVITIES		
Interest Income	<hr/> 8	<hr/> 3
Net Cash (Used) Provided by Investing Activities	<hr/> 8	<hr/> 3
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Loan	44,809	-
Principal Paid on Capital Debt	(71,558)	(71,728)
Purchases of Capital Assets	(63,909)	(2,250)
Disposal of Capital Assets	1,000	-
Contributed Capital-Tap Fees	4,500	2,250
Contributed Capital- Federal Grants	-	-
Net Receipts from Sanitation District	11,940	11,940
Interest Paid on Capital Debt	(93,474)	(129,459)
	<hr/>	<hr/>
Net cash (Used) Provided by Financing Activities	(166,692)	(189,247)
 NET INCREASE (DECREASE) IN CASH	 64,933	 17,092
Cash and Cash Equivalents - At beginning of year	<hr/> 103,890	<hr/> 86,799
CASH AND CASH EQUIVALENTS - AT END OF YEAR	<hr/> \$ 168,823	<hr/> \$ 103,890
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 54,167	\$ 64,413
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	167,009	166,322
Change in Assets and Liabilities:		
Accounts Receivable, Net	486	(26,103)
Inventories	8,151	3,868
Accounts Payable and Other Payables	7,048	(4,214)
Customer Deposits	(5,244)	2,050
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	<hr/> \$ 231,617	<hr/> \$ 206,336

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, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016

- 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, 2017 was \$139,905. The District had set aside \$ 120,396 at December 31, 2017 into a restricted account, resulting in the account being under-funded by \$19,509.

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, 2017 was \$ 152,480. District had set aside \$10,833 at December 31, 2017 into a restrict account, and therefore the account is under-funded by \$ 141,647.

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, 2017 and 2016

NOTE 4: FIXED ASSETS

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

Business-Type Activities	Balance			Balance Dec. 31, 2017
	Jan. 1, 2017	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	\$ 6,168,447	\$ 19,100	\$ -	6,187,547
Other Depreciable Assets	67,860	44,809	(12,600)	100,069
Total Capital Assets, Being Depreciated	6,236,307	63,909	(12,600)	6,287,616
Less accumulated depreciation:				
Plant in Service	2,186,121	158,656	-	2,344,777
Other Depreciable Assets	226,456	8,353	(10,680)	224,129
Total accumulated depreciation	2,412,577	167,009	(10,680)	2,568,906
Total Capital Assets, Being Depreciated, Net	3,823,730	(103,100)	(1,920)	3,718,710
Business-Type Activities Capital Assets - Net	\$ 4,030,726	\$ (103,100)	\$ (1,920)	\$ 3,925,706

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

Business-Type Activities	Balance			Balance Dec. 31, 2016
	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

WESTERN MASON COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 8: NOTES PAYABLE

The following is a summary of Notes Payable for the year ended December 31, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance
Loan-Bank of Maysville- \$100,150, Interest rate 4.0%, due 01/19/2024 Annual payments 01/19	\$ 72,165	-	\$ 7,892	\$ 64,273
Loan-Kentucky Infrastructure Authority (KIA) Interest rate- 2.0%, due 12/1/31 Semi-annual payments of \$6,989 beginning in 2012	180,365	-	10,404	169,961
Loan-Bank of Maysville-\$44,809 interest rate 3.5%, due 9/15/19, annual payments - 01/05	-	44,809	1,243	43,566
TOTAL NOTES PAYABLE	\$ 252,531	\$ 44,809	\$ 19,539	\$ 277,800
			Less Current Maturities:	(18,650)
			Total	<u>\$ 259,150</u>

NOTE 9: BONDS PAYABLE

The following is a summary of revenue bonds payable for the year ended December 31, 2017.
The revenues of the District are pledged as collateral for the following debt:

	Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
1988 Series	5.75%	\$ 350,000	5/1/2028	\$ 195,000	\$ -	\$ 12,000	\$ 183,000
1997 Series	4.88%	201,000	10/7/2036	146,500		4,500	142,000
2001 Series	4.75%	258,000	1/11/2042	215,500		4,500	211,000
2007 Series	4.25%	1,401,000	5/8/2048	1,281,000		20,500	1,260,500
2010 Series	3.50%	700,000	1/1/2050	662,000		10,500	651,500
				<u>\$2,500,000</u>	<u>\$ -</u>	<u>\$ 52,000</u>	<u>\$ 2,448,000</u>
							Less: Current Maturities
							Total
							<u>(53,500)</u>
							<u>\$ 2,394,500</u>

The following is a schedule of long-term debt maturities at December 31, 2017:

	Principal	Interest	Total
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	66,000	91,264	157,264
2023-2027	372,000	409,419	781,419
2028-2032	366,000	325,122	691,122
2033-2037	409,500	246,400	655,900
2038-2042	440,500	160,025	600,525
2043-2047	468,500	70,709	539,209
2048-2050	94,500	5,730	100,230
	<u>2,448,000</u>	<u>1,700,340</u>	<u>4,148,340</u>

SUPPLEMENTAL INFORMATION

**WESTERN MASON COUNTY WATER DISTRICT
SUPPLEMENTAL INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2017**

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	7/1/2018
Property - Building & Contents	\$ 1,962,000	7/1/2018
Equipment & Vehicles	\$ 3,000,000	7/1/2018
Fidelity Bond Public Officials Bond	\$1,000/each	Indefinite
Encroachment Bonds	\$ 177,000 5,000 6,500	10/7/2018 3/26/2018 6/24/2018
Workers Compensation	Statutory	7/1/2018
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.

131 E. ELECTRIC AVENUE
FLEMINGSBURG, KY 41041
(606)845-5210

550 W. FIRST ST., P.O. 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, 2017; 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 August 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Western Mason Water District, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Western Mason Water District, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Western Mason Water District, Kentucky's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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

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

Purpose of this Report

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

Donna J. Hendrix, CPA

Donna J. Hendrix, CPA, PSC

Morehead, Kentucky

August 13, 2018

WESTERN MASON COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017

PRIOR 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.

Response: This has been resolved by the Board of Commissioners providing more oversight and the hiring of an external CPA firm performing the accounting 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.

WESTERN MASON COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017

CURRENT YEAR AUDIT FINDINGS AND RESPONSES

2017-1 BOND RESERVE/SINKING FUND REQUIREMENTS

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

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

Cause: Bond covenants require monthly deposits.

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

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

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

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

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

131 E. ELECTRIC AVENUE
FLEMINGSBURG, KY 41041
(606)845-5210

550 W. FIRST ST., P.O. 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, 2017, 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 August 13, 2018, 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

August 13, 2018

WESTERN MASON WATER DISTRICT, KENTUCKY
MANAGEMENT POINTS, RECOMMENDATIONS AND RESPONSES
Year Ended December 31, 2017

Prior 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: This has been resolved.

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: This has been resolved.

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: This has been resolved.

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: This has been resolved.

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: This has been resolved.

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: This has been resolved.

WESTERN MASON WATER DISTRICT, KENTUCKY
MANAGEMENT POINTS, RECOMMENDATIONS AND RESPONSES
Year Ended December 31, 2017

Current Year Management Points

NONE