

Western Mason Sanitation District

Germantown, Kentucky

Regular Audit

January 1, 2013 through December 31, 2014

Fiscal Years Audited Under GAGAS: 2014 and 2013



CAUDILL & ASSOCIATES, CPA, PLLC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Western Mason Sanitation District
Germantown, KY 41044

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Western Mason Sanitation District of Germantown, Kentucky, (the "District"), as of and for the years ended December 31, 2013 and 2014, 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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Western Mason Sanitation District of Germantown, Kentucky, as of December 31, 2013 and 2014 and the changes in financial position and cash flows, thereon for the years ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 17, 2015, on our consideration of Western Mason Sanitation 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 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 the District's internal control over financial reporting and compliance.

Caudill & Associates, CPA

Caudill & Associates, CPA, PLLC
July 17, 2015

Western Mason Sanitation District
Statement of Net Position
December 31, 2014 and 2013

<u>ASSETS:</u>	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash	\$ 13,295	\$ 24,485
Accounts receivable	17,338	18,038
Prepaid Expense	<u>2,637</u>	<u>2,461</u>
<u>Total Current Assets</u>	<u>33,270</u>	<u>44,984</u>
Noncurrent Assets:		
Restricted cash	41,231	25,224
Capital Assets	4,706,781	4,503,288
Less: accumulated depreciation	<u>(836,576)</u>	<u>(724,703)</u>
<u>Total Noncurrent Assets</u>	<u>3,911,436</u>	<u>3,803,809</u>
<u>Total Assets</u>	<u>\$ 3,944,706</u>	<u>\$ 3,848,793</u>
<u>LIABILITIES AND NET POSITION:</u>		
Current Liabilities:		
Accounts payable	\$ 6,941	\$ 11,037
Current portion of long-term debt	<u>63,838</u>	<u>60,439</u>
<u>Total Current Liabilities</u>	<u>70,779</u>	<u>71,476</u>
Long-Term Liabilities:		
Loan payable, net	<u>969,680</u>	<u>1,033,518</u>
<u>Total Long-Term Liabilities</u>	<u>969,680</u>	<u>1,033,518</u>
<u>Total Liabilities</u>	<u>1,040,459</u>	<u>1,104,994</u>
Net Position		
Net Investment in capital assets	2,836,687	2,684,628
Restricted	41,231	25,224
Unrestricted	<u>26,329</u>	<u>33,947</u>
<u>Tota Net Position</u>	<u>2,904,247</u>	<u>2,743,799</u>
<u>Total Liabilites and Net Position</u>	<u>\$ 3,944,706</u>	<u>\$ 3,848,793</u>

The accompanying notes are an integral part of these financial statements

Western Mason Sanitation District
Statement of Revenues, Expenses and
Changes in Net Position
For the Years Ended December 31, 2014 and 2013

<u>OPERATING INCOME:</u>	2014	2013
Sanitation Services	\$ 225,740	\$ 222,497
Other	1,200	-
<u>Total Operating Income</u>	226,940	222,497
 <u>OPERATING EXPENSES:</u>		
Collection Fees	11,940	11,940
Office Expense	447	805
Maintenance	40,665	43,219
Professional fees	4,400	5,389
Utility Expense	3,656	4,802
Insurance	5,464	5,049
Contracted Services	27,450	25,737
Salary - Commissioners	13,900	10,050
Sewer Treatment	39,336	50,141
Rent	550	500
Loan Servicing Fees	2,133	2,171
Other expense	31	259
<u>Total Operating Expense</u>	149,972	160,062
Operating income before depreciation	76,968	62,435
Depreciation expense	(111,873)	(111,685)
<u>OPERATING (LOSS):</u>	(34,905)	(49,250)
Non-operating income (expenses)		
Interest income	7	7
Interest expense	(9,222)	(10,291)
<u>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</u>	(44,120)	(59,534)
Capital contributions	204,568	28,374
Change in net position	160,448	(31,160)
Net position, beginning of year	2,743,799	2,774,959
<u>NET POSITION, END OF YEAR</u>	\$ 2,904,247	\$ 2,743,799

The accompanying notes are an integral part of these financial statements

Western Mason Sanitation District
Statement of Cash Flows
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Receipts from customers	\$ 226,440	\$ 222,042
Payments to suppliers	(154,244)	(156,301)
Other Receipts	1,200	-
Net cash provided (used) by operating activities	73,396	65,741
Cash flows from capital and related financing activities:		
Principal paid	(60,439)	(70,729)
Interest paid	(9,222)	(10,291)
Capital contributions	204,568	28,374
Loan proceeds	-	-
Construction in progress	(203,493)	(38,374)
Net cash provided (used) in capital and related financing activities	(68,586)	(91,020)
Cash flows from investing activities:		
Interest Income	7	7
Net cash provided (used) by investing activities	7	7
Net increase (decrease) in cash	4,817	(25,272)
Cash, beginning of year	49,709	74,981
Cash, end of year	\$ 54,526	\$ 49,709
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating (loss)	\$ (34,905)	\$ (49,250)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	111,873	111,685
Change in assets and liabilities:		
(Increase) decrease in receivables, net	700	(455)
(Increase) decrease in other prepaid expenses	(176)	25
Increase (decrease) in accounts payable	(4,096)	3,736
Net cash provided (used) by operating activities	\$ 73,396	\$ 65,741

The accompanying notes are an integral part of these financial statements

WESTERN MASON SANITATION DISTRICT.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

The Western Mason Sanitation District (District) is a Sanitation District created and existing pursuant to the provisions of Section 220.010 of the Kentucky Revised Statutes.

Reporting Entity

The District's basic financial statements include the accounts of all District's operations. The criteria for including organizations as component units within the District's reporting entity, 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 and the criteria included in GASB Statement No. 14, the District has no component units.

Basic 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 included 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 District's policy to use restricted resources first and then unrestricted resources as they are needed.

WESTERN MASON SANITATION DISTRICT.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Use of Estimates

The preparation of the 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 Assets

Cash and Cash Equivalents

For the 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 six months or less (including amounts held in restricted asset accounts).

Restricted Assets

The replacement reserve requires annual deposits which are set aside for future capital expenditures on the wastewater system. See note 5.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 76.020, and as such, is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for income taxes.

WESTERN MASON SANITATION DISTRICT.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Assets, Liabilities, and Net Assets (Continued)

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 useful lives of the related assets using the straight-line method as follows:

Equipment	7 years
Plant and wastewater	40 years

Long-Term Obligations

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

Net Position

Net Position is reported in three categories: (1) net investment in capital assets, (2) restricted, and (3) unrestricted. Net investment in capital assets represents capital assets, less accumulated depreciation, less outstanding principal or related debt. Restricted net position reflects funds held in various reserve accounts to meet the various covenants as may be specified and defined in the note indentures or as deemed appropriate by management. All other net position is considered unrestricted.

Note 2 - Concentration of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

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 or the District will not be able to recover collateral securities in the possession of an outside party. 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, 2014, all of the District's deposits were covered by Federal Depository Insurance Corporation (FDIC) insurance.

WESTERN MASON SANITATION DISTRICT.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 3 – 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 carries commercial insurance coverage of risks to the extent deemed prudent by District’s management.

Note 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, 2013 and 2014, respectively:

	Balance			Balance
	Jan 1, 2013	Additions	Deletions	Dec 31, 2013
Construction in Progress	\$ -	\$ 28,374	\$ -	\$ 28,374
Capital Assets that are depreciated:				
Wastewater collection system	4,464,914	10,000	-	4,474,914
Total plant and equipment	4,464,914	38,374	-	4,503,288
Less: Accumulated Depreciation	613,018	111,685		724,703
Total	<u>\$ 3,851,896</u>	<u>\$ (73,311)</u>	<u>\$ -</u>	<u>\$ 3,778,585</u>
	Balance			Balance
	Jan 1, 2014	Additions	Deletions	Dec 31, 2014
Construction in Progress	\$ 28,374	\$ 203,493	\$ -	\$ 231,867
Capital Assets that are depreciated:				
Wastewater collection system	4,474,914	-	-	4,474,914
Total plant and equipment	4,503,288	203,493	-	4,706,781
Less: Accumulated Depreciation	724,703	111,873		836,576
Total	<u>\$ 3,778,585</u>	<u>\$ 91,620</u>	<u>\$ -</u>	<u>\$ 3,870,205</u>

Depreciation expense for the years ended December 31, 2014 and 2013 totaled \$111,873 and \$111,685, respectively.

WESTERN MASON SANITATION DISTRICT.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 5 - Long Term Debt

On April 1, 2006, the Kentucky Infrastructure Authority (KIA) made two loans to the Western Mason Sanitation District. These loans were obtained for the construction of a new wastewater collection system for the City of Germantown and the communities of Fernleaf and Highland Heights. During 2007, State grant funds were received from the Barcken County Fiscal Court and Mason County Fiscal Court in the amount of \$370,625 each to reduce the debt on Loan B05-06. In 2011, the loans were restricted to defer principal payments until December 2011 and payments structure was changed to monthly instead of semi-annually.

The following are a summary of changes in long-term debt for the two years ended December 31, 2013 and 2014 were as follows:

	Balance			Balance	Amount Due
	Jan 1, 2013	Additions	Deletions	Dec 31, 2013	in One Year
Buffalo Trace ADD	\$10,837	\$0	(\$10,837)	\$0	\$0
KIA note B05-06	506,868	-	(18,220)	488,648	18,348
KIA note A05-05	646,981		(41,672)	605,309	42,091
	<u>\$1,164,686</u>	<u>\$0</u>	<u>(\$70,729)</u>	<u>\$1,093,957</u>	<u>\$60,439</u>
	Balance			Balance	Amount Due
	Jan 1, 2014	Additions	Deletions	Dec 31, 2014	in One Year
KIA note B05-06	\$488,648		(\$18,348)	\$470,300	\$18,476
KIA note A05-05	605,309		(42,091)	563,218	45,362
	<u>\$1,093,957</u>	<u>\$0</u>	<u>(\$60,439)</u>	<u>\$1,033,518</u>	<u>\$63,838</u>

The annual requirements to amortize the District's indebtedness as of December 31, 2014 (including interest payments) are as follows:

WESTERN MASON SANITATION DISTRICT.
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

Note 5 - Long Term Debt (Continued)

Fiscal Year	Principal	Interest
2015	\$ 63,838	\$ 9,155
2016	64,164	8,484
2017	62,109	7,551
2018	60,054	7,857
2019	57,999	7,186
2020-2024	298,612	6,515
2025-2029	278,062	5,844
2030-2034	89,209	3,160
2035-2038	59,472	476
	<u>\$ 1,033,519</u>	<u>\$ 56,228</u>

Under terms of the KIA note agreement, the District is required to establish a Replacement Reserve account for future capital expenditures on the system. The Replacement Reserve requires annual deposits of \$18,000 by December 31, of each year commencing on December 31, 2011 with accumulate of \$180,000. At December 31, 2014, the Reserve balance was \$41,231.

Note 6 – Economic Dependency

The District has a long-term contract with the City of Maysville for its wastewater treatment at rates determined annually on the basis of operating costs of the Treatment Plant.

Note 7 – Litigation

The District is subject to other claims and lawsuits that arise primarily in the ordinary course of its activities. The District is currently a party of a lawsuit. It is the opinion of legal representation that the disposition of the lawsuit will not have a material adverse effect on the financial position, changes in net position and cash flows of the District.



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

To the Board of Commissioners
Western Mason Sanitation District
Germantown, KY 41044

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Western Mason Sanitation District as of and for the years ended December 31, 2013 and 2014., and the related notes to the financial statements, which collectively comprise the Western Mason Sanitation District's basic financial statements, and have issued our report thereon dated July 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Western Mason Sanitation District'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Western Mason Sanitation District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Sanitation 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Caudill & Associates, CPA

Caudill & Associates, CPA, PLLC

July 17, 2015

**Western Mason Sanitation District
Mason County, Kentucky**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2014 AND 2013**

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</p>

No Matters Reportable

**Western Mason Sanitation District
Mason County, Kentucky**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014 AND 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-1	Lack of Segregation of Duties	Yes	Finding No Longer Valid