

Western Mason Sanitation District

Germantown, Kentucky

Regular Audit

January 1, 2016 through December 31, 2017

Fiscal Years Audited Under GAGAS: 2017 and 2016



GOVERNMENT AUDIT QUALITY CENTER - AICPA

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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 the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collective 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, 2017 and 2016, the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other 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 to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operation, 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 August 23, 2018 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, PLLC

Caudill & Associates, CPA

August 23, 2018

Western Mason Sanitation District
Statement of Net Position
December 31, 2017 and 2016

<u>ASSETS:</u>	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash	\$ 31,687	\$ 13,731
Accounts receivable	18,470	18,165
Prepaid Expense	<u>2,486</u>	<u>2,486</u>
<u>Total Current Assets</u>	<u>52,643</u>	<u>34,382</u>
Noncurrent Assets:		
Restricted cash	91,496	72,269
Capital Assets	4,731,000	4,719,257
Less: accumulated depreciation	<u>(1,191,083)</u>	<u>(1,073,102)</u>
<u>Total Noncurrent Assets</u>	<u>3,631,413</u>	<u>3,718,424</u>
<u>Total Assets</u>	<u>\$ 3,684,056</u>	<u>\$ 3,752,806</u>
<u>LIABILITIES AND NET POSITION:</u>		
Current Liabilities:		
Accounts payable	\$ 3,311	\$ 6,649
Current portion of long-term debt	<u>62,677</u>	<u>62,109</u>
<u>Total Current Liabilities</u>	<u>65,988</u>	<u>68,758</u>
Long-Term Liabilities:		
Loan payable, net	<u>786,196</u>	<u>848,873</u>
<u>Total Long-Term Liabilities</u>	<u>786,196</u>	<u>848,873</u>
<u>Total Liabilities</u>	<u>852,184</u>	<u>917,631</u>
Net Position		
Net Investment in capital assets	2,691,044	2,735,173
Restricted	91,496	72,269
Unrestricted	<u>49,332</u>	<u>27,733</u>
<u>Tota Net Position</u>	<u>2,831,872</u>	<u>2,835,175</u>
<u>Total Liabilites and Net Position</u>	<u>\$ 3,684,056</u>	<u>\$ 3,752,806</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, 2017 and 2016

<u>OPERATING INCOME:</u>	2017	2016
Sanitation Services	\$ 292,798	\$ 277,046
Other	-	-
<u>Total Operating Income</u>	<u>292,798</u>	<u>277,046</u>
 <u>OPERATING EXPENSES:</u>		
Collection Fees	14,690	14,190
Office Expense	1,465	300
Maintenance	36,131	47,086
Professional fees	8,295	15,050
Utility Expense	7,586	5,521
Insurance	6,471	5,903
Contracted Services	37,200	21,425
Salary - Commissioners	16,200	15,000
Sewer Treatment	46,691	43,055
Rent	-	550
Loan Servicing Fees	1,765	1,889
Other expense	102	619
<u>Total Operating Expense</u>	<u>176,596</u>	<u>170,588</u>
 Operating income before depreciation	 116,202	 106,458
Depreciation expense	(117,981)	(117,981)
<u>OPERATING (LOSS):</u>	(1,779)	(11,523)
Non-operating income (expenses)		
Interest income	27	7
Interest expense	(7,551)	(7,697)
<u>(LOSS) BEFORE CAPITAL CONTRIBUTIONS</u>	(9,303)	(19,213)
Capital contributions	6,000	12,467
Change in net position	(3,303)	(6,746)
Net position, beginning of year	2,835,175	2,841,921
<u>NET POSITION, END OF YEAR</u>	<u>\$ 2,831,872</u>	<u>\$ 2,835,175</u>

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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from customers	\$ 292,493	\$ 276,464
Payments to suppliers	(179,934)	(171,239)
Other Receipts	-	-
Net cash provided (used) by operating activities	112,559	105,225
Cash flows from capital and related financing activities:		
Principal paid	(62,108)	(61,548)
Interest paid	(7,551)	(7,679)
Capital contributions	6,000	12,467
Loan proceeds	-	-
Property, Plant and Equipment	(11,744)	(12,493)
Net cash provided (used) in capital and related financing activities	(75,403)	(69,253)
Cash flows from investing activities:		
Interest Income	27	7
Net cash provided (used) by investing activities	27	7
Net increase (decrease) in cash	37,183	35,979
Cash, beginning of year	86,000	50,021
Cash, end of year	\$ 123,183	\$ 86,000
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating (loss)	(1,779)	(11,523)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	117,981	117,981
Change in assets and liabilities:		
(Increase) decrease in receivables, net	(305)	(582)
(Increase) decrease in other prepaid expenses	-	-
Increase (decrease) in accounts payable	(3,338)	(651)
Net cash provided (used) by operating activities	\$ 112,559	\$ 105,225

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, 2017 AND 2016

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 non-operating 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 non-operating 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, 2017 AND 2016

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.

Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through August 23, 2018, which represents the date these financial statements were available for issuance. Subsequent events past this date, as they pertain to the fiscal year ended December 31, 2017, have not been evaluated by the District.

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, 2017 AND 2016

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, 2016 and 2017, 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, 2017 AND 2016

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, 2016 and 2017, respectively:

	<u>Balance</u> <u>Jan 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec 31, 2016</u>
Construction in Progress	\$0	\$0	\$0	\$0
Capital Assets that are depreciated:				
Wastewater Collection System	<u>4,706,781</u>	<u>12,476</u>	<u>-</u>	<u>4,719,257</u>
Total Plant and Equipment	4,706,781	12,476	0	4,719,257
Less: Accumulated Depreciation	<u>(955,121)</u>	<u>(117,981)</u>	<u>-</u>	<u>(1,073,102)</u>
Total	<u>\$3,751,660</u>	<u>(105,505)</u>	<u>0</u>	<u>\$3,646,155</u>
	<u>Balance</u> <u>Jan 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec 31, 2017</u>
Construction in Progress	\$0	\$0	0	\$0
Capital Assets that are depreciated:				
Wastewater Collection System	<u>4,719,257</u>	<u>11,743</u>	<u>-</u>	<u>4,731,000</u>
Total Plant and Equipment	4,719,257	11,743	0	4,731,000
Less: Accumulated Depreciation	<u>(1,073,102)</u>	<u>(117,981)</u>	<u>-</u>	<u>(1,191,083)</u>
Total	<u>\$3,646,155</u>	<u>(106,238)</u>	<u>0</u>	<u>\$3,539,917</u>

Depreciation expense for the years ended December 31, 2017 and 2016 totaled \$117,981 and \$117,981, respectively.

WESTERN MASON SANITATION DISTRICT.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2016 and 2017 were as follows:

	Balance Jan 1, 2016	Additions	Deletions	Balance Dec 31, 2016	Amount Due In One Year
KIA Note B05-06	\$451,823	\$0	(\$18,607)	\$433,216	\$18,737
KIA Note A05-05	520,706	-	(42,941)	477,765	43,372
	<u>\$972,529</u>	<u>\$0</u>	<u>(\$61,548)</u>	<u>\$910,981</u>	<u>\$62,109</u>
	Balance Jan 1, 2017	Additions	Deletions	Balance Dec 31, 2017	Amount Due In One Year
KIA Note B05-06	\$433,216	\$0	(\$18,737)	\$414,479	\$18,869
KIA Note A05-05	477,765	-	(43,371)	434,394	43,808
	<u>\$910,981</u>	<u>\$0</u>	<u>(\$62,108)</u>	<u>\$848,873</u>	<u>\$62,677</u>

The annual requirements to amortize the District's indebtedness as of December 31, 2017 (including interest payments) are as follows:

Fiscal Year	Principal	Interest
2018	\$62,677	\$6,985
2019	63,249	6,411
2020	63,830	5,834
2021	64,410	5,251
2022	64,999	4,661
2023-2027	306,994	14,332
2028-2032	102,614	5,936
2033-2037	106,268	2,281
2038	13,832	22
	<u>\$848,873</u>	<u>\$51,713</u>

WESTERN MASON SANITATION DISTRICT.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Note 5 - Long Term Debt (Continued)

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, 2017, the Reserve balance was \$91,496.

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 REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities of Western Mason Sanitation District, as of and for the years ended December 31, 2016 and 2017, and the related notes to the financial statements, which collectively comprise the Western Sanitation District's basic financial statements and have issued our report thereon dated August 23, 2018.

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 appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine 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, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of reasonably assuring whether Western Mason Sanitation District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Caudill & Associates, CPA

Caudill & Associates, CPA, PLLC
August 23, 2018