

**BRACKEN COUNTY WATER DISTRICT
BROOKSVILLE, KENTUCKY
AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**



1 Source CPA's, PLLC

Certified Public Accountants

2202 Old Main Street
Maysville, KY 41056

BRACKEN COUNTY WATER DISTRICT
BROOKSVILLE, KENTUCKY
Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Bracken County Water District
Brooksville, Kentucky 41004

Report on the Financial Statements

We have audited the accompanying financial statements of the Bracken County Water District, as of and for the years 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 of 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.

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Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
PROPRIETARY FUND
December 31, 2017 and 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents - Unrestricted	\$ 1,129,257	\$ 946,974
Unbilled Revenue	85,501	75,391
Accounts Receivable - Customers, Net of Allowance for Uncollectible (\$9,002)	151,188	147,607
Inventory	52,946	52,110
Prepaid Insurance	16,654	17,260
Total Current Assets	1,435,546	1,239,342
Noncurrent assets:		
Cash and Cash Equivalents - Restricted	246,642	241,920
KRWFC Sinking Fund	134,338	135,278
Nondepreciable Capital Assets:		
Land	17,990	17,990
Construction in Progress	8,568	-
Depreciable Capital Assets:		
Property, Plant and Equipment	17,170,086	17,088,178
Less: Accumulated depreciation	(5,890,827)	(5,591,221)
Total Noncurrent Assets	11,686,797	11,892,145
TOTAL ASSETS	\$ 13,122,343	\$ 13,131,487
LIABILITIES		
Current liabilities:		
Accounts Payable	\$ 56,706	\$ 51,146
Customer Deposits	64,800	65,919
Accrued Wages and Vacation Pay	34,495	34,495
Taxes Payable	5,042	4,863
Accrued Interest	64,160	67,960
Current Portion of Long-Term Debt	278,337	269,693
Total Current Liabilities	503,540	494,076
Noncurrent Liabilities:		
Notes Payable, Net of Current Portion	3,892,917	4,171,254
TOTAL LIABILITIES	4,396,457	4,665,330
NET POSITION		
Net Investment in Capital Assets	7,134,563	7,074,000
Restricted for:		
Debt Service	201,655	200,832
Capital Projects and Replacement	111,198	108,507
Customer Deposits	66,623	67,888
Unrestricted	1,211,847	1,014,930
TOTAL NET POSITION	\$ 8,725,886	\$ 8,466,157

The notes to the financial statements are an integral part of this statement.

BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND

For The Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Water Sales	\$ 1,511,147	\$ 1,512,479
Service Charges and Other Revenue	48,912	44,763
TOTAL OPERATING REVENUES	1,560,059	1,557,242
OPERATING EXPENSES:		
Water Purchased	362,101	350,320
Salaries	220,841	229,114
Employee Pensions and Benefits	50,620	44,332
Electricity	40,545	43,207
Maintenance	17,134	27,386
Materials and Supplies	76,814	54,805
Insurance	34,774	37,572
Advertising	260	252
Accounting and Legal Fees	9,475	30,438
Transportation	9,847	11,166
Water Analysis Fee	4,211	2,619
Regulatory Commission Expense	3,155	2,958
Depreciation and Amortization	299,606	297,285
Payroll Taxes	16,492	17,143
TOTAL OPERATING EXPENSES	1,145,875	1,148,597
OPERATING INCOME	414,184	408,645
NONOPERATING REVENUES (EXPENSES):		
Customer Tap Fees	13,500	24,000
Gain/Loss on Sale of Assets	-	-
Interest Income	4,146	4,024
Interest Expense	(172,101)	(182,232)
TOTAL NONOPERATING REVENUES (EXPENSES)	(154,455)	(154,208)
Net Income Before Capital Contribution	259,729	254,437
Capital Contribution	-	-
CHANGE IN NET POSITION	259,729	254,437
NET POSITION- Beginning of year	8,466,157	8,211,720
NET POSITION- End of year	\$ 8,725,886	\$ 8,466,157

The notes to the financial statements are an integral part of this statement.

BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
For The Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Receipts from Customers	\$ 1,511,147	\$ 1,504,961
Cash Payments to Suppliers for Goods and Services	(635,375)	(680,669)
Cash Payments for Salaries and Benefits	(223,996)	(232,072)
Other Receipts (Payments)	48,912	52,281
Net Cash Provided (Used) by Operating Activities	700,688	644,501
CASH FLOWS FROM INVESTING ACTIVITIES		
KRWFC Sinking Fund	940	(1,775)
Interest Income	4,146	4,024
Net Cash Provided (Used) by Investing Activities	5,086	2,249
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	-	62,498
Principal Paid on Capital Debt	(269,693)	(248,676)
Purchases of Capital Assets	(90,475)	(177,566)
Contributed Capital - Tap Fees	13,500	24,000
Interest Paid on Capital Debt	(172,101)	(182,232)
Net Cash Provided (Used) by Financing Activities	(518,769)	(521,976)
NET INCREASE (DECREASE) IN CASH	187,005	124,774
Cash and Cash Equivalents - Beginning of Year	1,188,894	1,064,120
Cash and Cash Equivalents, End of Year	\$ 1,375,899	\$ 1,188,894
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ 414,184	\$ 408,645
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:		
Depreciation Expense	299,606	297,285
Change in Assets and Liabilities:		
Accounts Receivable	(13,691)	(13,797)
Inventories	(836)	303
Prepaid Expense	606	1,514
Accounts Payable and Other Payables	1,938	(51,250)
Customer Deposits	(1,119)	(781)
Accrued Wages and Vacation	-	2,582
Net Cash Provided (Used) by Operating Activities	\$ 700,688	\$ 644,501

The notes to the financial statements are an integral part of this statement.

**BRACKEN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bracken County Water District was created and organized as a public body corporate in Bracken County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Bracken County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

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 Bracken 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. The entities included in the financial statements are the general operations of the District. Bracken County Water District No. 1 merged with Western Bracken County Water District effective December 27, 1995 by order of the Public Service Commission.

Based on the foregoing criteria there are no other organizations included in these financial statements.

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.

Basis of Accounting

The accounts of the District are maintained on the accrual basis of accounting. 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

Inventory is valued at the lower of cost or market.

BRACKEN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 75 years for system lines and plant, to 20 years for pumping equipment, 20 years for meters, and from 5 to 20 years for vehicles and office equipment. The provisions for depreciation in 2017 reflect those standard rates by asset class. The District's capitalization threshold is \$1,000.

Unbilled Revenue

The District records revenue as billed to its customers on 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.

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.

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.

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.

Net Position

Net position represents the difference between assets and liabilities. 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. Funds are reported as restricted when there are legal 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, and then unrestricted resources as they are needed.

**BRACKEN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

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, 2017, \$664,826 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	<u>\$664,826</u>
Total	<u>\$664,826</u>

NOTE 3: LONG-TERM DEBT

In connection with two major construction projects, the District obtained new loans to pay for construction not otherwise covered by Federal or State grants or by local funds. On October 7, 2004, the District finalized a long-term loan with USDA Rural Development in the amount of \$980,000 for the Southwestern Project. On August 31, 2004, the District finalized a \$928,000 loan from KIA for the Berlin-Lenoxtburg Project.

The Rural Development loan is for 40 years, 4.5%, principal payable on December 1 of each year and interest paid semi-annually. The KIA loan is for 20 years, 3.0%, principal and interest payable monthly.

The Delisle Curve and office building projects were funded by loans through the Kentucky Rural Water Finance Corporation (KRWFC). In April 2006, the District obtained short-term financing in the amount of \$3,085,000 to begin construction on these projects. In August 2007, bonds were issued in the amount of \$3,350,000 to pay off the short-term financing and for additional construction costs. The loan is for 20 years, 4.175% to 4.550%, principal and interest payments made monthly into the sinking fund at KRWFC.

On March 1, 2012, the District obtained two loans from Kentucky Infrastructure Authority (KIA) to commence construction on two projects. The first project is a line replacement project which was funded by Loan Fund C in the amount of \$621,000. The second project was for the Short Road improvement and upgrade project which was funded by Loan Fund B in the amount of \$475,000, of which 80% of the principal was forgiven. Both loans were financed at a 3% interest rate.

The KY 19 Master Meter to Kelly Ridge project was funded by a Kentucky Infrastructure Authority (KIA) loan on September 1, 2015 in the amount of \$358,000. Repayment of the loan began in December 2016 with semi-annual payments of \$10,624 with an interest rate of 1.75%.

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2017 and 2016

NOTE 3: LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$791,334, 02-10 KIA For construction through December 31, 2003, loan maximum \$928,000, interest at 3.00%	\$ 438,356	\$ -	\$ 49,257	\$ 389,099
\$980,000, 2004 Rural Development dated 10/07/04, due 2044, principal payable annually on Dec. 1 and interest payable semi-annually at 4.50%	844,000	-	16,000	828,000
\$3,350,000, Kentucky Rural Water Finance Corp. Series 2007 D, dated 07/30/07, principal payable annually, interest payable semi-annually at 4.175-4.55%	2,180,000	-	160,000	2,020,000
\$475,000 KIA (principal forgiven \$380,000) Loan #B10-10, dated 12/09/10 principal payable semi-annually, interest payable semi-annually at 3.00%	78,266	-	4,033	74,233
\$358,000 KIA Loan #B15-002, dated 09/01/2015 payable semi-annually, principal in varying amounts, interest rate 1.75%	350,486	-	15,225	335,261
\$621,000, KIA Loan #C11-01, dated 03/01/12 payable monthly, principal in varying amounts, interest at 3.00%	549,839	-	25,178	524,661
	<u>4,440,947</u>	<u>-</u>	<u>269,693</u>	<u>4,171,254</u>
Less: Current Maturities	<u>269,693</u>			<u>278,337</u>
Totals	<u>\$4,171,254</u>			<u>\$3,892,917</u>

The following is a schedule of long-term debt maturities:

	<u>Principal</u>	<u>Interest</u>
2018	278,337	162,613
2019	287,057	151,738
2020	300,857	140,855
2021	308,738	129,155
2022	322,703	116,894
2023-2027	1,633,848	522,815
2028-2032	454,068	156,939
2033-2037	299,646	89,292
2038-2042	235,000	38,811
2043	51,000	4,455
	<u>\$ 4,171,254</u>	<u>\$1,513,567</u>

**BRACKEN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016**

NOTE 4: RESERVES

The Bracken County Water District is required to comply with the KIA and Rural Development bond agreements 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 "Bracken County Water District Waterworks, 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:

- (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 District had set aside \$201,655 at December 31, 2017 into the restricted account. Deposits were made to the sinking fund on a monthly basis as required in (1) and (2).

B. DEPRECIATION FUND

The District is required to deposit \$470 and \$310 for Rural Development and KIA each month into the Depreciation Fund account as well as 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 and KIA, for the purpose of paying the cost of constructing replacements, extensions, additions and/or improvements to the project. Whenever the balance in the Depreciation Fund shall equal \$56,400 (\$37,000 for KIA) the monthly payments may be discontinued, or by the order of the governing body of the District, may be diverted into the Sinking Fund Account to be held as a part of the Sinking Fund Reserve and may then be used to redeem Bonds; however, the payments into the Depreciation Fund must be resumed whenever necessary to restore the balance. The District is also required to deposit \$1,200 annually until the account reaches \$12,000 and \$1,600 annually until the account reaches \$16,000 for new KIA loans. The District had set aside \$111,198 at December 31, 2017 into restricted accounts.

**BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2017 and 2016**

NOTE 5: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2017 was as follows:

Business-Type Activities	Balance Jan. 1, 2017	Additions	Deductions	Balance Dec. 31, 2017
Cost:				
Land	\$ 17,990	\$ -	\$ -	\$ 17,990
Plant in Service	16,580,834	73,265	-	16,654,099
Other Depreciable Assets	507,344	8,643	-	515,987
Construction in Progress	-	8,568	-	8,568
Totals at historical cost	17,106,168	90,476	-	17,196,644
Less accumulated depreciation:				
Land & Land Rights	835	-	-	835
Plant in Service	5,096,474	297,111	-	5,393,585
Other Depreciable Assets	493,912	2,495	-	496,407
Total accumulated depreciation	5,591,221	299,606	-	5,890,827
Business-Type Activities Capital Assets - Net	\$ 11,514,947	\$ (209,130)	\$ -	\$ 11,305,817

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

Business-Type Activities	Balance Jan. 1, 2016	Additions	Deductions	Balance Dec. 31, 2016
Cost:				
Land	\$ 14,490	\$ 3,500	\$ -	\$ 17,990
Plant in Service	16,108,518	472,316	-	16,580,834
Other Depreciable Assets	525,815	2,495	20,966	507,344
Construction in Progress	300,744	211,690	512,434	-
Totals at historical cost	16,949,567	690,001	533,400	17,106,168
Less accumulated depreciation:				
Land & Land Rights	835	-	-	835
Plant in Service	4,844,450	252,024	-	5,096,474
Other Depreciable Assets	469,617	45,261	20,966	493,912
Total accumulated depreciation	5,314,902	297,285	20,966	5,591,221
Business-Type Activities Capital Assets - Net	\$ 11,634,665	\$ 392,716	\$ 512,434	\$ 11,514,947

**BRACKEN COUNTY WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For the Years Ended December 31, 2017 and 2016**

NOTE 6: ECONOMIC DEPENDENCY

The District purchases the majority of its water from the City of Augusta Water Treatment Plant through a long-term contract.

NOTE 7: RISK MANAGEMENT

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

NOTE 8: SUBSEQUENT EVENTS

Subsequent events were considered through October 31, 2018, which represents the release date of this report.

NOTE 9: CONSTRUCTION COMMITMENT

The District has commenced construction on a project, Division IWE Pump Station, for replacement of lines. The project is funded by a USDA Rural Development Rural Utilities Service loan and grant. The estimated costs and funding sources for the project are as follows:

Rural Utilities Service Loan	\$3,427,000
Rural Utilities Service Grant	<u>1,141,900</u>
Total Funding	\$4,568,900

Development	\$3,668,600
Legal and Administrative	10,000
Engineering Fees	451,900
Interest	65,000
Contingencies	<u>373,400</u>
Total Cost	\$4,568,900

SUPPLEMENTAL INFORMATION

**BRACKEN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 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	07-01-18
Property - Building & Contents	\$5,332,616	07-01-18
Equipment & Vehicles	\$384,392	07-01-18
Treasurer and Commissioners	\$300,000 and \$10,000	04-25-18
Workers Compensation	Statutory	07-01-18
Encroachment Permit	\$25,000	Indefinite

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2017, accounts receivable were aged as follows:

	<u>Number Of Accounts</u>	<u>Amount</u>
Current	2,557	\$129,430
Over 30 Days	396	18,019
Over 60 Days	45	247
Over 90 Days	192	11,253
Total	<u>3,190</u>	<u>\$158,949</u>

During 2017, the District carried a reserve for possible uncollectible accounts of \$9,002. Accounts in arrears have been collected or are covered by deposits.

The District had a total of 2,535 customers at December 31, 2017. Of these customers, 2,514 were residential, 18 were commercial, and 3 were resale.



1 Source CPA's, PLLC

Certified Public Accountants

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

Board of Commissioners
Bracken County Water District
Brooksville, Kentucky 41004

We have audited, 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, the financial statements of the Bracken County Water District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Bracken County Water District's basic financial statements, and have issued our report thereon dated October 31, 2018.

Internal Control Over Financial Reporting

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

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

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

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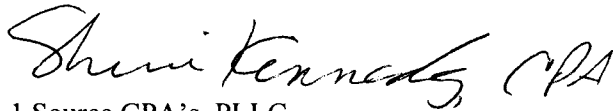
Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bracken County Water District'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*.

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.



1 Source CPA's, PLLC
Maysville, Kentucky

October 31, 2018