

**BRACKEN COUNTY
WATER DISTRICT**

**AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017**

**BRACKEN COUNTY WATER DISTRICT
BROOKSVILLE, KENTUCKY
Years Ended December 31, 2018 and 2017**

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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
Bracken County Water District
Brooksville, Kentucky 41004

We have audited the accompanying financial statements of the business-type activities of Bracken County Water District, Kentucky as of and for the year ended December 31, 2018 and December 31, 2017, 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 Bracken County Water District, Kentucky, as of December 31, 2018, 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 14, 2019, on our consideration of the Bracken 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 Bracken 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 14, 2019

**BRACKEN COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

ASSETS	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash and Cash Equivalents-Unrestricted	\$ 1,244,101	\$ 1,129,257
Unbilled Revenue	17,950	85,501
Accounts Receivable (net of allowance for doubtful accounts of \$6,830 and \$9,002 at December 31, 2018 and 2017.)	198,128	151,188
Inventory	121,917	52,946
Prepaid Insurance	17,117	16,654
Total Current Assets	<u>1,599,212</u>	<u>1,435,546</u>
Restricted Assets		
Cash and Cash Equivalents-Restricted	256,832	246,642
KRWFC Sinking Fund	136,594	134,338
Total Restricted Assets	<u>393,426</u>	<u>380,980</u>
Noncurrent assets:		
Nondepreciable Capital Assets:		
Land	17,990	17,990
Construction in Progress	611,915	8,568
Depreciable Capital Assets:		
Property, Plant and Equipment	17,263,855	17,170,086
Less: Accumulated depreciation	<u>(6,203,813)</u>	<u>(5,890,827)</u>
Total Noncurrent Assets	<u>11,689,947</u>	<u>11,305,816</u>
 TOTAL ASSETS	 <u>\$ 13,682,585</u>	 <u>\$ 13,122,343</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts Payable	\$ 37,641	\$ 56,706
Customer Deposits	70,301	64,800
Accrued Wages and Vacation Pay	36,963	34,495
Taxes Payable	4,038	5,042
Accrued Interest Payable	60,230	64,160
Current Portion of Long-term Debt	287,058	278,337
Total Current Liabilities	<u>496,230</u>	<u>503,540</u>
Noncurrent Liabilities:		
KRWFC Interium Financing	568,900	-
Notes Payable, Net of Current Portion	3,605,860	3,892,917
Total NonCurrent Liabilities	<u>4,174,760</u>	<u>3,892,917</u>
 TOTAL LIABILITIES	 <u>4,670,990</u>	 <u>4,396,457</u>
NET POSITION		
Net Investment in Capital Assets	6,616,213	7,134,563
Restricted for:		
Debt Service	205,539	201,655
Capital Projects and Replacement	117,237	111,198
Customer Deposits	70,650	66,623
Unrestricted	2,001,956	1,211,847
TOTAL NET POSITION	<u>\$ 9,011,595</u>	<u>\$ 8,725,886</u>

See accompanying notes to the financial statements.

**BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
OPERATING REVENUES:		
Water Sales	\$ 1,440,587	\$ 1,511,147
Service Charges and Other Revenue	45,517	48,912
	1,486,104	1,560,059
OPERATING EXPENSES:		
Water Purchased	333,513	362,101
Salaries	227,290	220,841
Employee Pensions and Benefits	54,081	50,620
Electricity	37,648	40,545
Maintenance	18,483	17,134
Materials and Supplies	56,931	76,814
Insurance	31,973	34,774
Advertising	583	260
Accounting and Legal Fees	17,813	9,475
Transportation	10,629	9,847
Water Analysis Fee	3,069	4,211
Regulatory Commission Expense	3,147	3,155
Depreciation and Amortization	312,986	299,606
Payroll Taxes	17,015	16,492
	1,125,161	1,145,875
OPERATING INCOME (LOSS)	360,942	414,184
NONOPERATING REVENUES (EXPENSES):		
Customer Tap Fees	30,162	13,500
Gain(Loss) Sale of Assets	5,000	-
DOT project flow through income	13,882	-
DOT project flow through expense	(13,882)	-
Interest Income	7,645	4,146
Interest Expense	(161,491)	(172,101)
TOTAL NONOPERATING REVENUES (EXPENSES)	(118,683)	(154,455)
Net Income Before Capital Contribution	242,259	259,729
Capital Contribution	43,451	-
CHANGE IN NET POSITION	285,710	259,729
NET POSITION - Beginning of year	8,725,886	8,466,157
NET POSITION - End of year	\$ 9,011,595	\$ 8,725,886

See accompanying notes to the financial statements.

**BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash Receipts from Customers	1,440,587	1,511,147
Cash Payments to Suppliers for Goods and Services	(652,686)	(635,375)
Cash Payments for Salaries and Benefits	(298,387)	(223,996)
Other Receipts (Payments)	45,517	48,912
Net Cash Provided (Used) by Operating Activities	535,031	700,688
CASH FLOWS FROM INVESTING ACTIVITIES		
KRWFC Sinking Fund	(940)	940
Interest Income	7,645	4,146
Net Cash Provided (Used) by Investing Activities	7,645	5,086
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	568,900	-
Principal Paid on Capital Debt	(278,336)	(269,693)
Purchases of Capital Assets	(697,116)	(90,475)
Contributed Capital - Tap Fees	30,162	13,500
Interest Paid on Capital Debt	(161,491)	(172,101)
Net Cash Provided (Used) by Financing Activities	(537,881)	(518,769)
NET INCREASE (DECREASE) IN CASH	4,796	187,005
Cash and Cash Equivalents - Beginning of Year	1,375,899	1,188,894
Cash and Cash Equivalents - End of Year	\$ 1,380,695	\$ 1,375,899
RECONCILIATION OF OPERATING INCOM (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	360,942	414,184
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:		
Depreciation Expense	312,986	299,606
Amortization Expense	-	-
Change in Assets and Liabilities:		
Accounts Receivable	20,611	(13,691)
Inventories	(68,971)	(836)
Prepaid Expense	(463)	606
Accounts Payable and Other Payables	(98,042)	1,938
Customer Deposits	5,501	(1,119)
Accrued Wages and Vacation	2,468	-
Net Cash Provided (Used) by Operating Activities	\$ 535,031	\$ 700,688

Supplemental Disclosures:

Interest paid was \$161,491 and \$ 172,101 in 2018 and 2017 respectively.

See accompanying notes to the financial statements.

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

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 Count 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 operation 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 FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017**

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2018 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 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 used, 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 FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

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, 2018, \$984,785 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$984,785
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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-Lenoxburg 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 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 payoff 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 sinking fund 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 KY19 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, 2018 and 2017

NOTE 3: LONG-TERM DEBT

	Beginning Balance	Additions	Reductions	Ending Balance
\$791,334, 02-10 KIA For construction through December 31, 2003, loan maximum \$928,000, interest at 3.00%	\$ 389,100		\$ 50,746	\$ 338,355
\$621,000, KIA Loan #C11-01, dated 3/1/12 payable monthly, principal in varying amounts interest at 3.00%	524,661		25,942	498,719
\$980,000, 2004 Rural Development dated 10/07/04, due 2044, principal payable annually on Dec 1 and interest payable semi-annually at 4.5%	828,000		17,000	811,000
\$3,350,000, Kentucky Rural Water Finance Corp. Series 2007D, dated 07/30/07, principal payable annually, interest payable semi-annually at 4.175-4.55%	2,020,000		165,000	1,855,000
\$475,000, KIA (principal forgiven \$380,000) Loan #B10-10, dated 12/9/10 Principle payable semi-annual, interest payable semi-annually at 3%	74,233		4,156	70,077
\$358,000, KIA Loan Loan B15-002	335,261		15,491	319,770
	<u>4,171,254</u>	-	<u>278,335</u>	<u>3,892,919</u>
Less: Current Maturities	<u>278,337</u>			<u>287,058</u>
Totals	<u>3,892,917</u>			<u>3,605,861</u>

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

	Principal	Interest
2019	287,057	151,738
2020	300,857	140,855
2021	308,738	129,155
2022	322,703	116,894
2023	336,753	104,049
2024-2028	1,383,139	320,469
2029-2033	463,808	142,077
2034-2038	246,862	78,883
2039-2043	243,000	31,367
2044-2045	-	-
	<u>\$ 3,892,919</u>	<u>\$ 1,215,487</u>

**BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017**

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 of the interest becoming due to 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 \$205,539 at December 31, 2018 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 damages 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 annually \$1,200 for KIA until the account reaches \$12,000, the District is also required to deposit annually \$1,600 for KIA until the account reaches \$16,000. The District had set aside \$114,823 at December 31, 2018 into restricted accounts.

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017

NOTE 5: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2018 was as follows:

Business-Type Activities	Balance Jan. 1, 2018	Additions	Deductions	Balance Dec. 31, 2018
Cost:				
Land	\$ 17,990			\$ 17,990
Plant in Service	16,654,099	77,169		16,731,268
Other Depreciable Assets	515,987	16,600		532,587
Construction in Progress	8,568	603,327		611,895
Totals at historical cost	17,196,644	697,096	-	17,893,739
Less accumulated depreciation:				
Land & Land Rights	835			835
Plant in Service	5,393,585	309,856		5,703,441
Other Depreciable Assets	496,407	3,130		499,537
Total accumulated Depreciation	5,890,827	312,986	-	6,203,813
Business-Type Activities Capital Assets - Net	\$ 11,305,817	\$ 384,110	\$ -	\$ 11,689,926

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	5,591,223	299,606	-	5,890,827
Business-Type Activities Capital Assets - Net	\$ 11,514,947	\$ (209,130)	\$ -	\$ 11,305,817

**BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017**

NOTE 6: ECONOMIC DEPENDENCY

The District purchases all of its water from the District of Augusta Water Treatment Plant and Western Mason Water District through a long-term contract at rates determined annually on the basis of operating costs of the Water Treatment Plant and Water District.

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 management.

NOTE 8: SUBSEQUENT EVENTS

Subsequent events were considered through August 14, 2019, 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
 SUPPLEMENTARY INFORMATION REQUIRED BY RURAL DEVELOPMENT
 December 31, 2018**

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	7-1-19
Property-Building & Contents	\$5,332,616	7-1-19
Equipment & Vehicles	\$384,392	7-1-19
Treasurer and Commissioners	\$300,000 and \$10,000	4-25-19
Workers Compensation	Statutory	7-1-19
Encroachment Permit	\$25,000	Indefinite

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
Bracken County Water District
Brooksville, Kentucky 41004

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 Bracken County Water District as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Bracken County Water District, Kentucky's basic financial statements and have issued our report thereon dated August 14, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bracken County 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 Bracken County Water District, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bracken County 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 Bracken County 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*.

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 14, 2019

DONNA J. HENDRIX
CERTIFIED PUBLIC ACCOUNTANT

MEMBER: K.S.C.P.A.
A.L.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)

Board of Commissioners
Bracken County Water District
Brooksville, Kentucky 41004

In planning and performing my audit of the basic financial statements of Bracken County Water District for the year ended December 31, 2018, 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 a matter that is an opportunity for increasing 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 14, 2019, on the financial statements of the Bracken County Water District.

I will review the status of these comments and suggestions with various 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

Morehead, Kentucky

August 14, 2019

BRACKEN COUNTY WATER DISTRICT
MANAGEMENT POINTS, RECOMMENDATIONS, AND RESPONSES
Year Ended December 31, 2018

Status of Prior Year Management Points

None

Current Year Management Points

2018-1 Approval of monthly bank statements

Condition: A member of the Board of Commissioners is not opening, reviewing and signing off on the monthly bank statement.

Recommendation: A member of the Board of Commissioners should open, review and sign off on each monthly bank statement.

Response: This will be investigated and implemented immediately.