

**BRACKEN COUNTY
WATER DISTRICT**

**AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018**

**BRACKEN COUNTY WATER DISTRICT
BROOKSVILLE, KENTUCKY
Years Ended December 31, 2019 and 2018**

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CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Bracken County Water District
Brooksville, Kentucky 41004

Report on the Financial Statements

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bracken County Water District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal*

Awards, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2020, on our consideration of the Bracken County Water 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 solely 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 the effectiveness of the Bracken County Water District, Kentucky's 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 Bracken County Water District, Kentucky's internal control over financial reporting and compliance.

Donna J. Hendrix, CPA

Morehead, Kentucky
October 8, 2020

BRACKEN COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

ASSETS	<u>2019</u>	<u>2018</u>
Current Assets:		
Cash and Cash Equivalents-Unrestricted	\$ 1,675,137	\$ 1,244,101
Unbilled Revenue	46,973	17,950
Accounts Receivable (net of allowance for doubtful accounts of \$10,286 and \$6,830 at December 31, 2019 and 2018.)	142,921	198,128
Inventory	81,780	121,917
Prepaid Insurance	15,478	17,117
Total Current Assets	<u>1,962,290</u>	<u>1,599,212</u>
Restricted Assets		
Cash and Cash Equivalents-Restricted	265,136	256,832
KRWFC Sinking Fund	137,833	136,594
Total Restricted Assets	<u>402,968</u>	<u>393,426</u>
Noncurrent assets:		
Nondepreciable Capital Assets:		
Land	17,990	17,990
Construction in Progress	3,216,753	611,915
Depreciable Capital Assets:		
Property, Plant and Equipment	17,357,929	17,263,855
Less: Accumulated depreciation	(6,512,703)	(6,203,813)
Total Noncurrent Assets	<u>14,079,969</u>	<u>11,689,947</u>
TOTAL ASSETS	<u>\$ 16,445,228</u>	<u>\$ 13,682,585</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts Payable	\$ 162,414	\$ 37,641
Customer Deposits	71,850	70,301
Accrued Wages and Vacation Pay	31,036	36,963
Taxes Payable	5,038	4,038
Accrued Interest Payable	56,064	60,230
Current Portion of Long-term Debt	300,857	287,058
Total Current Liabilities	<u>627,259</u>	<u>496,230</u>
Noncurrent Liabilities:		
KRWFC Interium Financing	3,194,961	568,900
Notes Payable, Net of Current Portion	3,305,004	3,605,860
Total NonCurrent Liabilities	<u>6,499,964</u>	<u>4,174,760</u>
TOTAL LIABILITIES	<u>7,127,223</u>	<u>4,670,990</u>
NET POSITION		
Net Investment in Capital Assets	7,279,148	7,228,128
Restricted for:		
Debt Service	208,322	205,539
Capital Projects and Replacement	121,027	117,237
Customer Deposits	73,619	70,650
Unrestricted	1,635,888	1,390,041
TOTAL NET POSITION	<u>\$ 9,318,004</u>	<u>\$ 9,011,595</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, 2019 AND 2018

	2019	2018
OPERATING REVENUES:		
Water Sales	\$ 1,705,398	\$ 1,440,587
Service Charges and Other Revenue	49,002	45,517
TOTAL OPERATING REVENUES	1,754,401	1,486,104
OPERATING EXPENSES:		
Water Purchased	373,122	333,513
Salaries	219,668	227,290
Employee Pensions and Benefits	59,156	54,081
Electricity	52,138	37,648
Maintenance	33,231	18,483
Materials and Supplies	190,058	56,931
Insurance	31,547	31,973
Advertising	239	583
Accounting and Legal Fees	11,108	17,813
Transportation	19,726	10,629
Water Analysis Fee	5,148	3,069
Regulatory Commission Expense	2,964	3,147
Depreciation and Amortization	308,890	312,986
Payroll Taxes	16,665	17,015
TOTAL OPERATING EXPENSES	1,323,661	1,125,161
OPERATING INCOME (LOSS)	430,740	360,942
NONOPERATING REVENUES (EXPENSES):		
Customer Tap Fees	20,698	30,162
Gain(Loss) Sale of Assets	-	5,000
DOT project flow through income	18,535	13,883
DOT project flow through expense	(18,535)	(13,882)
Interest Income	5,434	7,645
Interest Expense	(150,463)	(161,491)
TOTAL NONOPERATING REVENUES (EXPENSES)	(124,331)	(118,683)
Net Income Before Capital Contribution	306,409	242,259
Capital Contribution	-	43,451
CHANGE IN NET POSITION	306,409	285,710
NET POSITION - Beginning of year	9,011,595	8,725,886
NET POSITION - End of year	\$ 9,318,004	\$ 9,011,595

See accompanying notes to the financial statements.

**BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash Receipts from Customers	1,705,398	1,440,587
Cash Payments to Suppliers for Goods and Services	(530,929)	(651,746)
Cash Payments for Salaries and Benefits	(295,489)	(298,387)
Other Receipts (Payments)	49,002	45,517
Net Cash Provided (Used) by Operating Activities	927,983	535,971
CASH FLOWS FROM INVESTING ACTIVITIES		
KRWFC Sinking Fund	(1,239)	(940)
Interest Income	5,434	7,645
Net Cash Provided (Used) by Investing Activities	4,195	6,705
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	2,626,061	568,900
Principal Paid on Capital Debt	(297,286)	(278,336)
Purchases of Capital Assets	(2,698,912)	(697,116)
Contributed Capital - Tap Fees	20,698	30,162
Interest Paid on Capital Debt	(150,463)	(161,491)
Net Cash Provided (Used) by Financing Activities	(499,903)	(537,881)
NET INCREASE (DECREASE) IN CASH	432,275	4,795
Cash and Cash Equivalents - Beginning of Year	1,380,695	1,375,899
Cash and Cash Equivalents - End of Year	\$ 1,812,970	\$ 1,380,695
RECONCILIATION OF OPERATING INCOM (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	430,740	360,942
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:		
Depreciation Expense	308,890	312,986
Amortization Expense	-	-
Change in Assets and Liabilities:		
Accounts Receivable	26,184	20,611
Inventories	40,137	(68,971)
Prepaid Expense	1,639	(463)
Accounts Payable and Other Payables	124,773	(97,102)
Customer Deposits	1,549	5,501
Accrued Wages and Vacation	(5,927)	2,468
Net Cash Provided (Used) by Operating Activities	\$ 927,983	\$ 535,971

Supplemental Disclosures:

Interest paid was \$150,463 and \$ 161,491 in 2019 and 2018 respectively.

See accompanying notes to the financial statements.

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

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 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, 2019 and 2018

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 2019 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 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 FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

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 have a deposit policy for custodial credit risk. As of December 31, 2019 there was \$1,871,035 of the bank balance that was covered by FDIC insurance or by collateral held by the custodial banks in the District's name. There was \$77,990 of the bank balance that was exposed to custodial credit risk.

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%.

During 2019, the District received interim financing from KRWFC for the AC Line Project. The balance on the loan at December 31, 2019 is \$3,194,960. The interest rate is 2.53% and will be paid off in 2020 with bonds.

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

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%	\$ 338,355		\$ 52,281	\$ 286,075
\$621,000, KIA Loan #C11-01, dated 3/1/12 payable monthly, principal in varying amounts interest at 3.00%	498,719		26,734	471,985
\$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%	811,000		18,000	793,000
\$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%	1,855,000		170,000	1,685,000
\$475,000, KIA (principal forgiven \$380,000) Loan #B10-10, dated 12/9/10 Principle payable semi-annual, interest payable semi-annually at 3%	70,077		4,280	65,797
\$358,000, KIA Loan Loan B15-002	319,770		15,766	304,004
	3,892,919	-	287,061	3,605,861
Less: Current Maturities	287,058			300,857
Totals	3,605,861			3,305,004

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

	Principal	Interest
2020	300,857	140,855
2021	308,738	129,155
2022	322,703	116,894
2023	336,753	104,049
2024	350,894	90,614
2025-2029	1,120,849	264,234
2030-2034	430,680	127,440
2035-2039	236,387	69,066
2040-2044	198,000	21,444
	<u>\$ 3,605,861</u>	<u>\$ 1,063,751</u>

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

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 \$208,321 at December 31, 2019 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 \$117,703 at December 31, 2019 into restricted accounts.

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

NOTE 5: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2019 was as follows:

Business-Type Activities	Balance Jan. 1, 2019	Additions	Deductions	Balance Dec. 31, 2019
Cost:				
Land	\$ 17,990			\$ 17,990
Plant in Service	16,731,268	73,899		16,805,167
Other Depreciable Assets	532,587	20,175		552,762
Construction in Progress	611,895	2,643,483	38,645	3,216,733
Totals at historical cost	17,893,739	2,737,557	38,645	20,592,651
Less accumulated depreciation:				
Land & Land Rights	835			835
Plant in Service	5,703,441	305,801		6,009,242
Other Depreciable Assets	499,537	3,089		502,626
Total accumulated Depreciation	6,203,813	308,890	-	6,512,707
Business-Type Activities Capital Assets - Net	\$ 11,689,926	\$ 2,428,667	\$ 38,645	\$ 14,079,944

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

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2019 and 2018

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 October 8, 2020, 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

There was interim financing that was received from KRWFC to fund the above project during 2019. The balance on the interim loan at December 31, 2019 was \$3,194,960. The interim loan will be paid off with RD Loan in 2020.

SUPPLEMENTAL INFORMATION

**BRACKEN COUNTY WATER DISTRICT
SUPPLEMENTARY INFORMATION REQUIRED BY RURAL DEVELOPMENT
December 31, 2019**

Schedule of Insurance in Force

<u>Insurance Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability	\$5,000,000	7-1-20
Property-Building & Contents	\$5,419,144	7-1-20
Equipment & Vehicles	\$200,838	7-1-20
Treasurer and Commissioners	\$300,000 and \$10,000	4-25-20
Workers Compensation	Statutory	7-1-20
Encroachment Permit	\$25,000	Indefinite

**BRACKEN COUNTY WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE		FEDERAL CFDA NUMBER	PROGRAM OR AWARD AMOUNT	EXPENDITURES	BEGINNING INTERIUM LOAN BALANCE	CURRENT YEAR INTERIUM LOAN \$ RECEIVED	ENDING INTERIUM LOAN BALANCE
U.S. DEPARTMENT OF AGRICULTURE:							
USDA RD Grant & Loans-Waste Water Disposal Program for Rural Communities	Loan	10,760	\$ 3,427,000	\$ 2,626,363	\$ 568,900	\$2,626,061	\$ 3,194,961
Total U.S. Department of Agriculture			\$ 3,427,000	\$ 2,626,363	\$ 568,900	\$2,626,061	\$ 3,194,961
Total Expenditures of Federal Awards			\$ 3,427,000	\$ 2,626,363	\$ 568,900	\$2,626,061	\$ 3,194,961

The accompanying notes are an integral part of this schedule
See independent auditor's report

Notes to the Schedule of Expenditures of Federal Awards

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of the Bracken County Water District under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Bracken County Water District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Bracken County Water District.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement, negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3: Indirect Cost Rate

Bracken County Water District has elected not to use the 10-percent de minimum cost rate allowed under the Uniform guidance.

Note 4: Loan

The District was awarded a loan from Waterworks Revenue Bonds Series 2019 in the amount of \$3,427,000. That loan will be received in 2020. The District has received an

DONNA J. HENDRIX
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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
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, 2019, 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 October 8, 2020.

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
October 8, 2020

DONNA J. HENDRIX
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Commissioners
Bracken County Water District
Brooksville, Kentucky 41004

Report on Compliance for Each Major Federal Program

We have audited the Bracken County Water District, Kentucky's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Bracken County Water District, Kentucky's major federal programs for the year ended December 31, 2019. Bracken County Water District, Kentucky's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Bracken County Water District, Kentucky's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Bracken County Water District, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Bracken County Water District, Kentucky's compliance.

Opinion on Each Major Federal Program

In our opinion, the Bracken County Water District, Kentucky complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of the Bracken County Water District, Kentucky is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Bracken County Water District, Kentucky's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Bracken County Water District, Kentucky's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Donna J. Hendrix, CPA

Morehead, Kentucky
October 8, 2020

BRACKEN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2019

Section I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting

Material weakness(es) identified? No

Significant deficiency(s) identified that are not

Considered to be material to be material weakness(es)? None Reported

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(s) identified that are not

Considered to be material weakness(es)? None Reported

An unmodified opinion was issued on compliance for all major programs.

Any audit findings disclosed that are required to be reported

In accordance with 2 CFR Section 200.516(a) No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.760	USDA RD Grant & Loans Waste Water Disposal Program for Rural Communities

Dollar threshold used to distinguish between major and non-major programs: \$750,000

Sanitation District #1 of Lewis County qualified as a high risk auditee under section 200.520 of Title 2 U.S. Code of Federal Regulations Part 200.

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

BRACKEN COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2019

PRIOR YEAR – FINANCIAL STATEMENT FINDINGS

None were reported last year

PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None were reported last year

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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, 2019, 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 October 8, 2020, 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

October 8, 2020

BRACKEN COUNTY WATER DISTRICT
MANAGEMENT POINTS, RECOMMENDATIONS, AND RESPONSES
Year Ended December 31, 2019

Status of Prior Year Management Points

2018-1 This is still an issue, will be carried to Current Year as 2019-1.

Current Year Management Points

2019-1 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.