

BRACKEN COUNTY WATER DISTRICT
FINANCIAL STATEMENTS AND OTHER INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Bracken County Water District
Brooksville, Kentucky

Opinion

We have audited the accompanying financial statements of the Bracken County Water District (the "District"), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of December 31, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Other Matter

The financial statements of the District for the year ended December 31, 2021 were audited by another auditor, who expressed an unmodified opinion on those statements on November 3, 2022.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Management is responsible for the other information. The other information comprises the Schedule Required by Rural Development but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2023, on our consideration of the 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 District'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 District's internal control over financial reporting and compliance.

Kelley Galloway Smith Hooley, PSC

Ashland, Kentucky
December 1, 2023

**BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets:		
Cash and cash equivalents - unrestricted	\$ 858,472	\$ 1,156,184
Certificate of deposit	263,105	-
Unbilled revenue	119,663	97,125
Accounts receivable (net of allowance for doubtful accounts of \$18,989 and \$11,210, respectively)	170,940	144,526
Inventory	106,384	58,426
Prepaid insurance	17,267	15,941
Total current assets	<u>1,535,831</u>	<u>1,472,202</u>
Noncurrent Assets:		
Restricted Assets:		
Cash and cash equivalents – restricted	250,738	311,469
KRWFC sinking fund	296,006	299,074
Capital Assets:		
Non-depreciable	17,990	1,017,788
Depreciable, net of accumulated depreciation	<u>16,426,531</u>	<u>15,358,251</u>
Total noncurrent assets	<u>16,991,265</u>	<u>16,986,582</u>
 Total assets	 <u>\$ 18,527,096</u>	 <u>\$ 18,458,784</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 53,672	\$ 70,120
Accrued payroll and related liabilities	36,173	32,115
Taxes payable	4,539	4,936
Accrued interest	46,388	51,513
Customer deposits	78,109	75,550
Current portion of long-term debt	<u>681,753</u>	<u>417,203</u>
Total current liabilities	<u>900,634</u>	<u>651,437</u>
Noncurrent liabilities:		
Long-term debt – net of current portion	<u>6,582,096</u>	<u>7,026,303</u>
Total noncurrent liabilities	<u>6,582,096</u>	<u>7,026,303</u>
 Total liabilities	 <u>7,482,730</u>	 <u>7,677,740</u>
NET POSITION		
Net investment in capital assets	9,180,672	8,932,533
Restricted for:		
Debt service	324,269	408,751
Customer deposits	78,427	75,761
Capital projects and replacement	144,048	126,031
Unrestricted	<u>1,316,950</u>	<u>1,237,968</u>
Total net position	<u>11,044,366</u>	<u>10,781,044</u>
Total liabilities and net position	<u>\$ 18,527,096</u>	<u>\$ 18,458,784</u>

The accompanying notes to 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, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Water sales	\$ 1,749,969	1,683,494
Service charges and other revenue	46,998	47,298
Total operating revenues	<u>1,796,967</u>	<u>1,730,792</u>
OPERATING EXPENSES		
Water purchases	353,415	426,336
Salaries and wages	237,508	256,804
Payroll taxes	18,231	18,656
Employee benefits	53,116	50,049
Accounting and legal	38,743	50,404
Depreciation	390,029	375,203
Insurance	34,638	32,889
Materials and supplies	125,136	192,681
Electricity	54,435	47,658
Advertising	2,396	768
Regulatory commission expense	2,619	3,497
Repairs and maintenance	28,212	35,412
Transportation	29,928	20,029
Water testing	2,976	2,729
Total operating expenses	<u>1,371,382</u>	<u>1,513,115</u>
OPERATING INCOME	<u>425,585</u>	<u>217,677</u>
NON-OPERATING REVENUES (EXPENSES)		
Amortization of debt premium	12,453	10,829
Interest income	1,805	3,009
Interest expense	(234,684)	(217,016)
Total non-operating revenues (expenses)	<u>(220,426)</u>	<u>(203,178)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	205,159	14,499
Customer tap fees	51,777	27,497
Capital contributions	<u>6,386</u>	<u>186,285</u>
INCREASE IN NET POSITION	263,322	228,281
NET POSITION, BEGINNING OF THE YEAR	<u>10,781,044</u>	<u>10,552,763</u>
NET POSITION, END OF THE YEAR	<u>\$ 11,044,366</u>	<u>\$ 10,781,044</u>

The accompanying notes to 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, 2022 AND 2021**

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,703,179	\$ 1,683,494
Cash payments to suppliers for goods and services	(738,230)	(724,648)
Cash payments to employees	(304,797)	(325,509)
Other receipts (payments)	46,998	47,298
Net cash provided by operating activities	707,150	680,635
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt	301,000	-
Principal paid on capital debt	(468,204)	(322,738)
Interest paid on capital debt	(239,809)	(217,016)
Purchases of capital assets	(458,511)	(374,037)
Contributed capital – tap fees	51,777	27,497
Contributed capital – grants	6,386	186,285
Net cash provided by (used for) capital and related financing activities	(807,361)	(700,009)
CASH FLOWS FROM INVESTING ACTIVITIES		
KRWFC sinking fund	(260,037)	(88,916)
Interest income	1,805	3,008
Net cash provided by (used for) investing activities	(258,232)	(85,908)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(358,443)	(105,282)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,467,653	1,572,935
CASH AND CASH EQUIVALENTS – END OF YEAR	\$ 1,109,210	\$ 1,467,653
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 425,585	\$ 217,677
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	390,029	375,203
Changes in assets and liabilities:		
Accounts receivable	(48,952)	(3,949)
Inventories	(47,958)	6,136
Prepaid insurance	(1,326)	(495)
Accounts payable and other liabilities	(12,787)	85,363
Customer deposits	2,559	700
Net cash provided by operating activities	\$ 707,150	\$ 680,635
Reconciliation of cash:		
Cash and cash equivalents - unrestricted	\$ 858,472	\$ 1,156,184
Cash and cash equivalents – restricted	250,738	311,469
Cash and cash equivalents, end of year	\$ 1,109,210	\$ 1,467,653
Supplemental information:		
Interest paid	\$ 239,809	\$ 210,394

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

**BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

The financial statements of the Bracken County Water District (“the District”) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body of governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below, and where appropriate, subsequent pronouncements will be referenced.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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 Kentucky Public Service Commission presently regulates 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.

Under Section 115 of the Internal Revenue Code of 1986, the District is exempt from income taxes; therefore, no provision has been made.

Reporting Entity

The District’s basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District’s reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Standards*, include whether:

- the District is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization’s board
- the District is able to impose its will on the organization
- the organization has the potential to impose financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, the District has no component units.

Basis of Accounting

The District’s operations are classified as an Enterprise Fund that accounts for the acquisition, operation, and maintenance of activities that are similar to a business. The Enterprise Fund is accounted for on the accrual basis of accounting. Revenues are recognized in the period earned, and expenses are recognized at the time liabilities are incurred. The Enterprise Fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an Enterprise Fund’s principal ongoing operations. The principal operating revenue of the District are charges to customers for sales and

services. The District also recognizes as operating revenue connection fees intended to recover the costs of connecting new customers to the utility system. Operating expenses for an Enterprise Fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for account balances deemed not collectible, and the time period used to depreciate the capital assets. Actual results could differ from estimated amounts.

Assets, Liabilities, and Net Position

Cash and cash equivalents. For purposes of reporting cash flows, cash and cash equivalents consist of cash on hand, cash on deposit with banks, and certificates of deposit with an original maturity of less than three months (including amounts held in restricted asset accounts).

Receivables. Customer accounts receivable reflect revenues earned or accrued during the period from customers of the water system. These accounts are stated at face value less an allowance for doubtful accounts. The balance of the allowance for doubtful accounts as of December 31, 2022 and 2021 was \$18,989 and \$11,210, respectively.

Inventories. Inventories are valued at cost (first-in, first-out method).

Restricted Assets. Certain proceeds of revenue bonds, as well as certain resources set aside for their payment, including sinking and reserve requirements, are classified as restricted assets on the statement of net position since their use is limited by applicable bond and note indentures.

Capital Assets. Expenditures for items having a useful life greater than one year are capitalized. The District's capitalization threshold is \$1,000. Capital assets are stated at cost. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method as follows:

Utility plant and system lines	25-65 years
Pumping equipment and meters	20 years
Furniture, fixtures and equipment	3-20 years

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

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

Capital Grants/Contributions

Grants or contributions that are restricted to the purchase of property, plant and equipment are recorded as capital contributions, per GASB 33. The District received capital grants and contributions of \$6,386 and \$186,285 for the years ended December 31, 2022 and 2021, respectively.

Reclassifications

Certain reclassifications have been made to the December 31, 2021 information to conform with the 2022 presentation.

Recent Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases* (“GASB 87”), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 was effective for the District beginning with its year ending December 31, 2022. The adoption of this standard did not have a material effect on the District's financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (“GASB 96”). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. The Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB 96 will be effective for the District beginning with its year ending December 31, 2023. Management is currently evaluating the impact of this Statement on its financial statements.

In May 2022, the GASB issued Statement No. 99, *Omnibus 2022* (“GASB 99”), to provide guidance addressing various accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements or during the due process on other pronouncements. GASB 99 addresses, among other matters:

- Accounting and financial reporting for exchange or exchange-like financial guarantees;
- Clarification of certain provisions of Statement No.:
 - 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments,
 - 87, Leases,
 - 94, Public-Private and Public-Public Partnership and Availability Payment Arrangements,
 - 96, Subscription-Based Information Technology Arrangements (SBITA);
- Replacing the original deadline for use of the London Interbank Offered Rate (LIBOR) as a benchmark interest rate for hedges of interest rate risk of taxable debt with a deadline for when LIBOR ceases to be determined by the ICE Benchmark Administration using the methodology in place as of December 31, 2021;
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP);
- Disclosures related to non-monetary transactions; and
- Pledges of future revenues when resources are not received by the pledging government.

Requirements that relate to the extension of the use of LIBOR, accounting for SNAP distributions, disclosures for non-monetary transactions, pledges of future revenues by pledging governments, clarifications of certain provisions in Statement No. 34, and terminology updates were effective upon issuance. Requirements related to leases, public-public and public-private partnerships (PPPs), and SBITAs will be effective for the District beginning with its year ending December 31, 2023.

Requirements related to financial guarantees and derivative instruments will be effective for the District beginning with its year ending December 31, 2024. Adoption of the provisions required upon issuance of this statement did not have a material effect on the District's financial statements. Management is currently evaluating the impact of the remaining provisions of this Statement on its financial statements.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections (an amendment of GASB Statement No. 62)* ("GASB 100"), which has as its primary objective to provide more straightforward guidance that is easier to understand and is more reliable, relevant, consistent, and comparable across governments for making decisions and assessing accountability. Improving the clarity of accounting and financial reporting requirements for accounting changes and error corrections will mean greater consistency in the application of these requirements in general.

GASB 100 prescribes accounting and financial reporting for each category of accounting change and error corrections, requiring that:

- Changes in accounting principle and error corrections be reported retroactively by restating prior periods;
- Changes in accounting estimate be reported prospectively by recognizing the change in the current period; and
- Changes to and within the financial reporting entity be reported by adjusting beginning balances of the current period.
- Requires that governments disclose the effects of each accounting change and error correction on beginning balances in a tabular format.

The requirements of GASB 100 will be effective for accounting changes and error corrections made by the District beginning with its year ending December 31, 2024. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences* ("GASB 101"), which supersedes the guidance in Statement No. 16, *Accounting for Compensated Absences*, issued in 1992. GASB 101 aligns recognition and measurement guidance for all types of compensated absences under a unified model. It also requires that a liability for specific types of compensated absences not be recognized until the leave is used. Additionally, it establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. For example, a liability for leave that has not been used would be recognized if the leave:

- Is attributable to services already rendered;
- Accumulates; and
- Is more likely than not to be used for time off or otherwise paid or settled. Some exceptions to this general rule include parental leave, military leave and jury duty leave for which a liability would not be recognized until the leave commences.

Additionally, GASB 101 (1) provides an alternative to the existing requirement to disclose the gross annual increases and decreases in long-term liability for compensated absences, allowing governments to disclose only the net annual change in the liability as long as it is identified as such; and (2) removes the disclosure of the government funds used to liquidate the liability for compensated absences. The requirements of GASB 101 will be effective for the District beginning with its year ending December 31, 2024. Management is currently evaluating the impact of this Statement on its financial statements.

(2) DEPOSITS

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's funds on deposit with the banks may not be returned to the District. The District's cash and cash equivalents consist of checking and savings accounts with local banks. This District does not have a deposit policy for custodial credit risk. At December 31, 2022, the carrying amount of the District's deposits (including certificates of deposit) was \$1,372,315 and the bank balances totaled \$1,386,611. The bank balances are categorized as follows:

Amount insured by the FDIC	\$	736,870
Amount collateralized with securities held by the bank in the District's name		<u>649,741</u>
Total	\$	<u>1,386,611</u>

The District's certificates of deposit at December 31, 2022 are as follows:

Type of Investment	Balance	Interest Rate	Maturity Date
Certificate of deposit	\$ 263,105	0.15%	4/05/2023

(3) RESTRICTED ASSETS

BOND FUND REQUIREMENTS

In connection with the USDA bond issue, the District is required to make monthly deposits into sinking and reserve funds. The balance of the sinking fund at December 31, 2022 was \$28,263, which exceeded the required balance. The balance of the reserve fund at December 31, 2022 was \$42,864, which exceeded the required balance.

KRWFC SINKING FUND

In connection with the KRWFC series 2020E and 2020G assistance agreements, the District is required to make monthly deposits into a sinking fund. Funds in the account are invested in repurchase agreements backed by US government debt securities. The balance of the sinking fund at December 31, 2022 totaled \$296,006, which was equal to the required balance.

MAINTENANCE AND REPLACEMENT RESERVE REQUIREMENTS

In connection with the Kentucky Infrastructure Authority assistance agreements, the District is required to make annual deposits into a maintenance and replacement reserve account until a required balance has been established. Amounts in these funds can be used for extraordinary maintenance expenses related to the project. The balances in these accounts at December 31, 2022 totaled \$100,586, which exceeded the required balance of \$69,700.

As of December 31, 2022 and 2021, restricted cash was as follows:

	2022	2021
KIA Reserve Accounts	\$ 100,586	\$ 96,150
USDA Reserve Fund	42,864	28,577
USDA Sinking Fund	28,263	109,677
Customer Deposits	78,427	75,761
Other	598	1,304
	<u>\$ 250,738</u>	<u>\$ 311,469</u>

(4) CAPITAL ASSETS

Changes in Capital Assets. The following is a summary of changes in capital assets and accumulated depreciation for the year ended December 31, 2022 and 2021:

<u>December 31, 2022</u>	Balance			Balance
Non-depreciable:	Jan 1, 2022	Additions	Deletions	Dec 31, 2022
Land	\$ 17,990	\$ -	\$ -	\$ 17,990
Construction in progress	999,798	327,051	1,326,849	-
Depreciable:				
Plant in service	21,963,623	1,380,409	110,010	23,234,022
Other depreciable assets	592,402	77,900	-	670,302
	23,573,813	1,785,360	1,436,859	23,922,314
Accumulated depreciation	7,197,774	390,029	110,010	7,477,793
	<u>\$ 16,376,039</u>	<u>\$ 1,395,331</u>	<u>\$ 1,326,849</u>	<u>\$ 16,444,521</u>

<u>December 31, 2021</u>	Balance			Balance
Non-depreciable:	Jan 1, 2021	Additions	Deletions	Dec 31, 2021
Land	\$ 17,990	\$ -	\$ -	\$ 17,990
Construction in progress	4,729,268	1,314,828	5,044,298	999,798
Depreciable:				
Plant in service	16,893,291	5,070,332	-	21,963,623
Other depreciable assets	559,574	32,828	-	592,402
	22,200,123	6,417,988	5,044,298	23,573,813
Accumulated depreciation	6,822,571	375,203	-	7,197,774
	<u>\$ 15,377,552</u>	<u>\$ 6,042,785</u>	<u>\$ 5,044,298</u>	<u>\$ 16,376,039</u>

(5) LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the District for the year ended December 31, 2022 and 2021:

<u>December 31, 2022:</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes and bonds payable	\$ 7,205,266	\$ 301,000	\$ 468,204	\$ 7,038,062	\$ 681,753
Unamortized premium	238,240	-	12,453	225,787	-
Total long-term debt	<u>\$ 7,443,506</u>	<u>\$ 301,000</u>	<u>\$ 480,657</u>	<u>\$ 7,263,849</u>	<u>\$ 681,753</u>
<u>December 31, 2021:</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Notes and bonds payable	\$ 7,528,004	\$ -	\$ 322,738	\$ 7,205,266	\$ 417,203
Unamortized premium	249,069	-	10,829	238,240	-
Total long-term debt	<u>\$ 7,777,073</u>	<u>\$ -</u>	<u>\$ 333,567</u>	<u>\$ 7,443,506</u>	<u>\$ 417,203</u>

Debt obligations included in long-term debt in the accompanying financial statements includes the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
\$928,000 note payable to the Kentucky Infrastructure Authority, semi-annual payments, interest at 3.0%, with an original term of 20 years, secured by water revenues	\$ 119,565	\$ 176,729
\$621,000 note payable to the Kentucky Infrastructure Authority, monthly payments, interest at 3.0%, with an original term of 20 years, secured by water revenues	386,809	416,055

\$475,000 note payable to the Kentucky Infrastructure Authority, \$380,000 principal forgiveness, semi-annual payments, interest at 3.0%, with an original term of 20 years, secured by water revenues	52,162	56,844
\$358,000 note payable to the Kentucky Infrastructure Authority, semi-annual payments, interest at 1.75%, with an original term of 20 years, secured by water revenues	255,026	271,638
\$2,090,000 note payable to the Kentucky Rural Water Finance Corporation Series 2020E, annual principal payments, interest due semi-annually at 2.25% - 3.25%, matures 2044, secured by water revenues	1,720,000	1,940,000
\$985,000 note payable to the Kentucky Rural Water Finance Corporation Series 2020G, annual principal payments, interest due semi-annually at 2.25% - 5.25%, matures 2044, secured by water revenues	925,000	965,000
\$3,427,000 bonds payable to Rural Development 91-08, annual principal payments, interest due semi-annually at 2.25%, matures 2060, secured by water revenues	3,278,500	3,379,000
\$301,000 note payable to the Kentucky Rural Water Finance Corporation, interest due semi-annually at 1.18%, principal upon maturity, matures 2023, secured by water revenues	301,000	-
Unamortized premium	225,787	238,240
Total long-term debt	<u>\$ 7,263,849</u>	<u>\$ 7,443,506</u>

The annual requirements to amortize the debt obligations as of December 31, 2022 (including interest payments) are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	<u>Total</u>
2023	\$ 681,753	\$ 147,892	\$ 2,411	\$ 832,056
2024	445,894	168,100	2,161	616,155
2025	398,118	152,835	1,936	552,889
2026	411,054	138,442	1,817	551,313
2027	429,029	122,350	1,713	553,092
2028-32	984,569	498,035	6,765	1,489,369
2033-37	881,145	376,441	4,334	1,261,920
2038-42	738,500	279,324	3,300	1,021,124
2043-47	532,500	202,060	900	735,460
2048-52	528,500	143,657	-	672,157
2053-57	606,000	79,954	-	685,954
2058-61	401,000	13,601	-	414,601
	<u>\$ 7,038,062</u>	<u>\$ 2,322,691</u>	<u>\$ 25,337</u>	<u>\$ 9,386,090</u>

(6) ECONOMIC DEPENDENCY

The District purchases all of its water from the 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 Plan and Water District.

(7) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The District provides for risk financing by purchasing coverage from commercial insurance companies.

(8) COMMITMENTS AND CONTINGENCIES

The District is subject to certain legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.

OTHER INFORMATION

**BRACKEN COUNTY WATER DISTRICT
OTHER INFORMATION REQUIRED BY RURAL DEVELOPMENT
DECEMBER 31, 2022**

SCHEDULE OF INSURANCE IN FORCE

<u>INSURANCE COVERAGE</u>	<u>AMOUNT</u>	<u>EXPIRATION DATE OF POLICY</u>
General Liability	\$ 5,000,000	7/1/2023
Property – Building and Contents	\$ 6,201,879	7/1/2023
Equipment and Vehicles	\$ 359,641	7/1/2023
Treasurer and Commissioners	\$ 300,000 and 10,000	4/25/2023
Encroachment Permit	\$ 25,000	Indefinite
Workers Compensation	Statutory	7/1/2023



Kelley **G**alloway
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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***

Board of Commissioners
Bracken County Water District
Brooksville, Kentucky

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 the Bracken County Water District (the “District”) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated December 1, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
December 1, 2023