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

We have audited the financial statements of the Bracken County Water District (the "District") for the year ended December 31, 2023 and have issued our report dated October 8, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 10, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by District are described in Note (1) to the financial statements. As described in Note (1) to the financial statements, the District changed accounting policies by adopting Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* and applicable provisions of GASB Statement No 99, *Omnibus 2022*, effective January 1, 2023. Adoption of these standards did not have a material effect on the District's financial statements.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of depreciation is based on historical trends and industry standards. We evaluated the key factors and assumptions used to develop the estimate of depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for doubtful accounts is based on historical loss levels and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 8, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the other information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of the Bracken County Water District and is not intended to be and should not be used by anyone other than these specified parties.

Kelley Hallock Smith Hallock, ES

Ashland, Kentucky
October 8, 2024

BRACKEN COUNTY WATER DISTRICT
FINANCIAL STATEMENTS AND OTHER INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
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 years ended December 31, 2023 and 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, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years 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 opinion.

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 opinion. 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 Other Information 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 October 8, 2024, 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 Halloway Smith Holsby, PSC

Ashland, Kentucky
October 8, 2024

**BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
PROPRIETARY FUND
DECEMBER 31, 2023 AND 2022**

	2023	2022
ASSETS		
Current Assets:		
Cash and cash equivalents - unrestricted	\$ 561,994	\$ 858,472
Certificates of deposit	778,082	263,105
Unbilled revenue	112,037	119,663
Accounts receivable (net of allowance for doubtful accounts of \$18,989 and \$18,989, respectively)	180,317	170,940
Inventory	99,973	106,384
Prepaid insurance	17,528	17,267
Total current assets	<u>1,749,931</u>	<u>1,535,831</u>
Noncurrent Assets:		
Restricted Assets:		
Cash and cash equivalents – restricted	363,501	250,738
KRWFC sinking fund	311,374	296,006
Capital Assets:		
Non-depreciable	17,990	17,990
Depreciable, net of accumulated depreciation	16,324,367	16,426,531
Total noncurrent assets	<u>17,017,232</u>	<u>16,991,265</u>
Total assets	<u>\$ 18,767,163</u>	<u>\$ 18,527,096</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 59,088	\$ 53,672
Accrued payroll and related liabilities	20,976	36,173
Taxes payable	5,845	4,539
Accrued interest	82,635	46,388
Customer deposits	76,925	78,109
Current portion of long-term debt	484,540	681,753
Total current liabilities	<u>730,009</u>	<u>900,634</u>
Noncurrent liabilities:		
Long-term debt – net of current portion	6,426,373	6,582,096
Total noncurrent liabilities	<u>6,426,373</u>	<u>6,582,096</u>
Total liabilities	<u>7,156,382</u>	<u>7,482,730</u>
NET POSITION		
Net investment in capital assets	9,431,444	9,180,672
Restricted for:		
Debt service	434,769	324,269
Customer deposits	77,115	78,427
Capital projects and replacement	162,991	144,048
Unrestricted	1,504,462	1,316,950
Total net position	<u>11,610,781</u>	<u>11,044,366</u>
Total liabilities and net position	<u>\$ 18,767,163</u>	<u>\$ 18,527,096</u>

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

**BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
OPERATING REVENUES		
Water sales	\$ 1,937,551	\$ 1,749,969
Service charges and other revenue	43,678	46,998
Total operating revenues	1,981,229	1,796,967
OPERATING EXPENSES		
Water purchases	383,517	353,415
Salaries and wages	257,618	237,508
Payroll taxes	22,426	18,231
Employee benefits	39,452	53,116
Accounting and legal	35,752	38,743
Depreciation	405,774	390,029
Insurance	35,802	34,638
Materials and supplies	139,282	125,136
Electricity	49,459	54,435
Advertising	247	2,396
Regulatory commission expense	2,416	2,619
Repairs and maintenance	28,874	28,212
Transportation	20,861	29,928
Water testing	2,196	2,976
Total operating expenses	1,423,676	1,371,382
OPERATING INCOME	557,553	425,585
NON-OPERATING REVENUES (EXPENSES)		
Amortization of debt premium	10,829	12,453
Interest income	25,318	1,805
Gain on sale of assets	39,200	-
Interest expense	(183,821)	(234,684)
Total non-operating revenues (expenses)	(108,474)	(220,426)
INCOME BEFORE CAPITAL CONTRIBUTIONS	449,079	205,159
Customer tap fees	41,400	51,777
Capital contributions	75,936	6,386
INCREASE IN NET POSITION	566,415	263,322
NET POSITION, BEGINNING OF THE YEAR	11,044,366	10,781,044
NET POSITION, END OF THE YEAR	\$ 11,610,781	\$ 11,044,366

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

**BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,935,922	\$ 1,703,179
Cash payments to suppliers for goods and services	(686,840)	(738,230)
Cash payments to employees	(334,693)	(304,797)
Other receipts (payments)	43,678	46,998
Net cash provided by operating activities	<u>958,067</u>	<u>707,150</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of capital debt	76,294	301,000
Principal paid on capital debt	(418,401)	(468,204)
Interest paid on capital debt	(147,574)	(239,809)
Purchases of capital assets	(303,610)	(458,511)
Proceeds from sale of assets	39,200	-
Contributed capital – tap fees	41,400	51,777
Contributed capital – grants	75,936	6,386
Net cash used for capital and related financing activities	<u>(636,755)</u>	<u>(807,361)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(530,345)	(260,037)
Interest income	25,318	1,805
Net cash used for investing activities	<u>(505,027)</u>	<u>(258,232)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(183,715)	(358,443)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,109,210</u>	<u>1,467,653</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 925,495</u>	<u>\$ 1,109,210</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 557,553	\$ 425,585
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	405,774	390,029
Changes in assets and liabilities:		
Accounts receivable	(1,751)	(48,952)
Inventories	6,411	(47,958)
Prepaid insurance	(261)	(1,326)
Accounts payable and other liabilities	(8,475)	(12,787)
Customer deposits	(1,184)	2,559
Net cash provided by operating activities	<u>\$ 958,067</u>	<u>\$ 707,150</u>
Reconciliation of cash:		
Cash and cash equivalents - unrestricted	\$ 561,994	\$ 858,472
Cash and cash equivalents – restricted	363,501	250,738
Cash and cash equivalents, end of year	<u>\$ 925,495</u>	<u>\$ 1,109,210</u>
Supplemental information:		
Interest paid	<u>\$ 220,068</u>	<u>\$ 239,809</u>

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

**BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

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, 2023 and 2022 was \$18,989 and \$18,989, 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 \$75,936 and \$6,386 for the years ended December 31, 2023 and 2022, respectively.

Reclassifications

Certain reclassifications have been made to the December 31, 2022 information to conform with the 2023 presentation.

Recent Accounting Pronouncements

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 was effective for the District beginning with its year ending December 31, 2023. The adoption of this standard did not have a material effect on the District's 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 was 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 through December 31, 2023 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, 2023, the carrying amount of the District's deposits (including certificates of deposit) was \$1,703,577 and the bank balances totaled \$1,724,930. The bank balances are categorized as follows:

Amount insured by the FDIC	\$	750,000
Amount collateralized with securities held by the bank in the District's name		<u>974,930</u>
Total	\$	<u>1,724,930</u>

The District's certificates of deposit at December 31, 2023 are as follows:

<u>Type of Investment</u>	<u>Balance</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Certificate of deposit	\$ 270,683	4.08%	2/07/2024
Certificate of deposit	204,262	4.25%	1/06/2024
Certificate of deposit	200,000	5.10%	5/20/2024
Certificate of deposit	103,137	5.09%	5/29/2024

(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, 2023 was \$123,395, which exceeded the required balance. The balance of the reserve fund at December 31, 2023 was \$57,154, 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, 2023 totaled \$311,374, 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, 2023 totaled \$105,240, which exceeded the required balance of \$72,200.

As of December 31, 2023 and 2022, restricted cash was as follows:

	<u>2023</u>	<u>2022</u>
KIA Reserve Accounts	\$ 105,240	\$ 100,586
USDA Reserve Fund	57,154	42,864
USDA Sinking Fund	123,395	28,263
Customer Deposits	77,115	78,427
Other	597	598
	<u>\$ 363,501</u>	<u>\$ 250,738</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, 2023 and 2022:

<u>December 31, 2023</u>		Balance			Balance
Non-depreciable:		Jan 1, 2023	Additions	Deletions	Dec 31, 2023
Land	\$	17,990	\$ -	\$ -	\$ 17,990
Depreciable:					
Plant in service		23,234,022	214,516	-	23,448,538
Other depreciable assets		670,302	89,094	43,531	715,865
		23,922,314	303,610	43,531	24,182,393
Accumulated depreciation		7,477,793	405,774	43,531	7,840,036
	\$	<u>16,444,521</u>	<u>\$ (102,164)</u>	<u>\$ -</u>	<u>\$ 16,342,357</u>
<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>

(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, 2023 and 2022:

	Beginning			Ending	Due Within
<u>December 31, 2023:</u>	Balance	Additions	Reductions	Balance	One Year
Notes and bonds payable	\$ 7,038,062	\$ 76,294	\$ 418,401	\$ 6,695,955	\$ 484,540
Unamortized premium	225,787	-	10,829	214,958	-
Total long-term debt	<u>\$ 7,263,849</u>	<u>\$ 76,294</u>	<u>\$ 429,230</u>	<u>\$ 6,910,913</u>	<u>\$ 484,540</u>
<u>December 31, 2022:</u>	Beginning	Additions	Reductions	Ending	Due Within
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>

Debt obligations included in long-term debt in the accompanying financial statements includes the following at December 31, 2023 and 2022:

	2023	2022
\$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	\$ 60,672	\$ 119,565

\$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	356,672	386,809
\$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	47,341	52,162
\$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	238,123	255,026
\$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	1,490,000	1,720,000
\$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	885,000	925,000
\$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	3,278,500
\$301,000 note payable to the Kentucky Rural Water Finance Corporation, interest due semi-annually at 1.18%, principal upon maturity, matures 2024, secured by water revenues	301,000	301,000
\$76,294 capital lease payable for the purchase of a equipment, interest due monthly at 6.46%, principal upon maturity, matures 2024, secured by equipment	38,647	
Unamortized premium	214,958	225,787
Total long-term debt	<u>\$ 6,910,913</u>	<u>\$ 7,263,849</u>

The annual requirements to amortize the debt obligations as of December 31, 2023 (including interest payments) are as follows:

<u>Year Ending December 31.</u>	<u>Principal</u>	<u>Interest</u>	<u>Fees</u>	<u>Total</u>
2024	\$ 484,540	\$ 171,159	\$ 2,161	\$ 657,860
2025	699,118	154,611	1,936	855,665
2026	411,054	138,442	1,817	551,313
2027	429,029	122,350	1,713	553,092
2028	182,045	111,021	1,599	294,665
2029-33	1,010,809	470,375	6,144	1,487,328
2034-38	839,360	356,872	4,156	1,200,388
2039-43	694,500	261,331	2,950	958,781
2044-48	510,000	189,685	450	700,135
2049-53	543,000	131,602	-	674,602
2054-58	623,000	66,128	-	689,128
2059-61	269,500	6,058	-	275,558
	<u>\$ 6,695,955</u>	<u>\$ 2,179,634</u>	<u>\$ 22,926</u>	<u>\$ 8,898,515</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, 2023**

SCHEDULE OF INSURANCE IN FORCE

<u>INSURANCE COVERAGE</u>	<u>AMOUNT</u>	<u>EXPIRATION DATE OF POLICY</u>
General Liability	\$ 5,000,000	7/1/2024
Property – Building and Contents	\$ 6,822,069	7/1/2024
Equipment and Vehicles	\$ 395,604	7/1/2024
Treasurer and Commissioners	\$ 300,000 and 10,000	4/25/2024
Encroachment Permit	\$ 25,000	Indefinite
Workers Compensation	Statutory	7/1/2024



Kelley **G**alloway
Smith **G**oolsby, PSC

Certified Public Accountants and Advisors

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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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 8, 2024.

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 Hooley, P.S.

Ashland, Kentucky
October 8, 2024