

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH

JAN 4 2013

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BRONSTON WATER ASSOCIATION, INC.

Audited Financial Statements
for the years ended December 31, 2011 and 2010



BARRY D. DAULTON, CPA, PSC

**423 EAST MT. VERNON STREET
SOMERSET, KENTUCKY 42501
(606) 679-9344**

**213 HIGHWAY 3106
MONTICELLO, KENTUCKY 42633
(606) 348-9316**

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for the years ended December 31, 2011 and 2010

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BARRY D. DAULTON, CPA, PSC
P.O. Box 1424
Somerset, Kentucky 42502
(606) 679-9344

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bronston Water Association, Inc.
Bronston, KY 42518

I have audited the accompanying statements of activities of Bronston Water Association, Inc. (a non-profit organization) as of December 31, 2011 and 2010, and the related statements of net assets and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express opinions on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audits provide a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bronston Water Association, Inc., as of December 31, 2011 and 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Somerset, Kentucky
December 21, 2012

Bronston Water Association, Inc.
Statements of Net Assets
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 188,771	\$ 148,089
Short-term cash investments	377,544	200,728
Accounts receivable	90,858	89,497
Prepaid expenses	<u>1,370</u>	<u>1,189</u>
Total current assets	658,543	439,503
Property, Plant and Equipment		
Construction in progress	525,425	107,748
Property, plant and equipment	5,696,664	5,643,893
Accumulated depreciation	<u>(1,827,501)</u>	<u>(1,614,435)</u>
Net property, plant and equipment	4,394,588	4,137,206
Other Assets		
Construction period interest	17,402	17,402
Accumulated amortization	(3,480)	(3,045)
Restricted cash accounts	<u>117,493</u>	<u>259,528</u>
Total other assets	<u>131,415</u>	<u>273,885</u>
Total Assets	<u>\$ 5,184,546</u>	<u>\$ 4,850,594</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 22,386	\$ 17,093
Payroll and related withholdings	3,341	2,492
Accrued interest payable	38,875	39,278
Other accrued liabilities	13,443	13,856
Customer deposits	25,370	24,999
Current portion of long-term debt	<u>15,588</u>	<u>16,563</u>
Total current liabilities	119,003	114,281
Long-term Liabilities		
Long-term debt	1,689,450	1,348,714
Net of current portion	<u>(15,588)</u>	<u>(16,563)</u>
Total long-term liabilities	<u>1,673,862</u>	<u>1,332,151</u>
Total Liabilities	1,792,865	1,446,432
Net Assets		
Contributions in aid of construction	3,798,049	3,707,618
Unrestricted net assets	<u>(406,368)</u>	<u>(303,456)</u>
Total net assets	<u>3,391,681</u>	<u>3,404,162</u>
Total Liabilities and Net Assets	<u>\$ 5,184,546</u>	<u>\$ 4,850,594</u>

See independent auditor's report and notes to financial statements

Bronston Water Association, Inc.
Statements of Activities
For the years ended December 31, 2011 and 2010

	2011	2010
Operating revenues		
Sales to customers	\$ 643,539	\$ 612,752
Other operating revenues	795	13,217
	644,334	625,969
Cost of water sold		
Water purchases	209,091	257,003
Water testing	3,357	1,930
Maintenance wages	90,918	86,500
Materials and supplies	90,166	45,243
Depreciation	213,066	203,931
Amortization	435	435
	607,033	595,042
Total cost of water sold	607,033	595,042
Operating profit	37,301	30,927
Support and administrative expenses		
Directors' fees	8,600	-
Payroll taxes	8,045	7,497
Employee benefits	5,832	5,407
Contractual services	11,300	12,500
Insurance	10,724	12,269
Utilities and telephone	9,183	8,847
Office expense	19,748	20,148
Transportation	9,207	7,495
PSC penalties and assessments	-	1,029
	82,639	75,192
Total support and administrative expenses	82,639	75,192
Change in net assets before other income and expenses	(45,338)	(44,265)
Other income and expenses		
Interest income	2,499	3,472
Interest expense	(60,073)	(52,128)
	(57,574)	(48,656)
Total other income and expenses	(57,574)	(48,656)
Change in unrestricted net assets	(102,912)	(92,921)
Unrestricted net assets beginning of year	(303,456)	(210,535)
Unrestricted net assets end of year	\$ (406,368)	\$ (303,456)

See independent auditor's report and notes to financial statements.

Bronston Water Association, Inc.
Statements of Cash Flows
For the years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	\$ (102,912)	\$ (94,489)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	213,501	204,366
(Increase) decrease in operating assets		
Accounts receivable	(1,361)	(1,722)
Prepaid insurance	(181)	222
Increase (decrease) in operating liabilities		
Accounts payable	5,293	(6,467)
Accrued withholdings	849	342
Accrued interest	(403)	11
Other current liabilities	(413)	1,410
Customer deposits	371	-
Net cash provided by operating activities	114,744	103,673
Cash flows from investing activities		
Short-term cash investments, net	(176,816)	68,205
Payments for property, plant and equipment	(470,448)	(314,903)
Net cash provided by investing activities	(647,264)	(246,698)
Cash flows from financing activities		
Principal addition on long-term debt	357,299	107,748
Principal reduction on long-term debt	(16,563)	(5,438)
Grant funds received	83,431	184,365
Tap-on fees received, net	7,000	6,500
Net cash provided by financing activities	431,167	293,175
Net increase (decrease) in cash and cash equivalents	(101,353)	150,150
Cash and cash equivalents beginning of year	407,617	257,467
Cash and cash equivalents end of year	\$ 306,264	\$ 407,617
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 60,476	\$ 52,128

See independent auditor's report and notes to financial statements.

Bronston Water Association, Inc.
Notes to Financial Statements
For the years ended December 31, 2011 and 2010

1. Summary of Significant Accounting Policies

Nature of Operations

Bronston Water Association, Inc. was formed to provide water utility service to the residents of Bronston, Kentucky and the surrounding service area in a safe and economically efficient manner. Operations are funded by billing members for water service provided at rates approved by the Public Service Commission.

Basis of Accounting

The Association prepares its financial statements on the accrual basis of accounting under which revenues are recognized when earned and expenses are recognized when incurred. The Association's accounting policies conform to generally accepted accounting principles for a non-profit organization.

Financial Statement Presentation

The Association has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash and Cash Equivalents

For Statement of Cash Flows purposes the Association considers all cash accounts and certificates of deposit with an initial term of 90 days or less as cash and cash equivalents.

Short-term Cash Investments

Short-term cash investments consist of certificates of deposit with an initial term in excess of ninety days as well as a deposit account pledged as a bond in relation to the ongoing construction project. These investments are stated at historical cost which approximates market value.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2011 and 2010

1. Summary of Significant Accounting Policies, continued

Accounts Receivable

Accounts receivable are stated at the face amount, which approximates the market value. The Association extends credit to substantially all of its members. Late fees are assessed on accounts which are not paid by the due date. After written notice has been given and the account is not brought current in 60 days, utility service cutoff occurs.

Accounts are reviewed periodically by management to determine their collectibility. Factors considered are customer history, whether the customer has moved and the balance of the account. At this point, for the accounts which are selected to be written off, the balance, including late fees, is written off and no additional late fees are assessed. The total of accounts with a balance greater than 90 days in arrears was not material at December 31, 2011 or 2010. Based on their past collection percentage history and the relatively small balance of accounts in arrears, the Association does not maintain a reserve for doubtful accounts.

Property, Plant and Equipment

All fixed assets of the Association with an estimated useful life exceeding one year are recorded at historical cost. Depreciation of fixed assets for the Association is provided using the straight-line method over the estimated useful lives of the assets ranging from seven to forty years.

Customer Deposits

Customer deposits represent amounts deposited by members when signing up for water utility service. These amounts are refundable to the customer when they separate service.

Liability for Compensated Absences

The Association's full-time employees are provided vacation time dependent upon the length of service of the employee. The Association does not compensate employees for unused vacation time. Due to the relatively small size of the staff, any accrual for compensated absences which is not recorded would not be material to the financial statements at December 31, 2011 or 2010.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2011 and 2010

1. Summary of Significant Accounting Policies, concluded

Contributions in Aid of Construction

Contributions in aid of construction represent amounts for grants received, tap-on fees from customers and membership fees received from Association members. These amounts are not refundable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Association is a not-for-profit organization that is exempt from income taxes under Section 501(c) of the Internal Revenue Code.

Comparative Statements

Certain prior year amounts have been restated to conform to current year classification.

2. Cash and Cash Equivalents

Cash and cash equivalents for purposes of cash flows consist of cash and cash equivalents and restricted cash accounts on the Statement of Financial Position. Restricted cash accounts include the customer deposit account, debt service reserve fund and cash account related to the construction project in progress.

3. Collateralization

At December 31, 2011, the Association had cash and short-term cash investments with a carrying value of \$683,808. Of the bank balance, \$250,000 was covered by FDIC insurance. The remaining balance was collateralized by pledged securities held by the bank and pledged to cover the deposits of the Association.

4. Depreciation Reserve Account

The Association is required to deposit \$235 and \$375 per month into separate Depreciation Reserve Accounts in accordance with the terms of the RECD financing agreements. The deposits will continue until balances of \$24,600 and \$45,000, respectively, are achieved and maintained. Withdrawals from the Depreciation Reserve Account are restricted as to purpose and may only be made after receiving approval from RECD. At December 31, 2011, these accounts were sufficiently funded.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2011 and 2010

5. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	<u>2011</u>	<u>2010</u>
Land and land rights	\$ 132,500	\$ 132,500
Transmission and distribution system	5,014,788	4,970,418
Meters and installations	419,339	419,339
Construction in progress	525,425	107,748
Office building and equipment	130,037	121,636
	<u>6,222,089</u>	<u>5,751,641</u>
Accumulated depreciation	<u>(1,827,501)</u>	<u>(1,614,435)</u>
Total Property, Plant and Equipment	<u>\$ 4,394,588</u>	<u>\$ 4,137,206</u>

6. Long-Term Debt

Long-term debt outstanding consists of bonds issued in 2003 in the original amount of \$418,000 and maturing in 2043, a real estate mortgage issued in 2008 in the original amount of \$850,000 and maturing in 2048, and a real estate mortgage issued in 2010 in the original amount of \$462,000 and maturing in 2050, all issued through USDA Rural Utilities Service RECD. Interest is 4.25% for the 2003 issue, 4.125% for the 2008 liability, and 2.50% for the 2010 liability. The liabilities are secured by the continuing operations and revenues of the Association.

Bronston Water Association, Inc.
Notes to Financial Statements, concluded
For the years ended December 31, 2011 and 2010

6. Long-Term Debt, concluded

Scheduled maturities of long-term debt are as follows:

	<u>Principal</u>
2012	15,588
2013	23,667
2014	24,531
2015	25,426
2016	26,357
future years	<u>1,573,881</u>
	<u><u>\$ 1,689,450</u></u>

7. Economic Dependency

The Association purchases 100% of its water under a contract with the Monticello Utility Commission. The loss of this source of water could severely affect the Association's ability to serve its members.

BARRY D. DAULTON, CPA, PSC
P.O. Box 1424
Somerset, Kentucky 42502
(606) 679-9344

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 Directors
Bronston Water Association, Inc.
Bronston, KY 42518

I have audited the financial statements of Bronston Water Association, Inc. (a non-profit organization) as of and for the years ended December 31, 2011 and 2010, and have issued my report thereon dated December 21, 2012. I conducted my 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.

Internal Control over Financial Reporting

Management of Bronston Water Association, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audits, I considered the Association's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

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

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. I consider the following deficiency to be a significant deficiency:

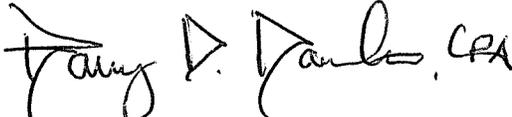
Due to the small size of the staff, there is inadequate segregation of duties in the areas of initiating, approving and recording transactions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of the District in a separate letter dated December 21, 2012.

This report is intended solely for the information and use of management, Board members, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Somerset, Kentucky
December 21, 2012

BARRY D. DAULTON, CPA, PSC
P.O. Box 1424
Somerset, Kentucky 42502
(606) 679-9344

December 21, 2012

To the Board of Directors
Bronston Water Association, Inc.
Bronston, KY 42518

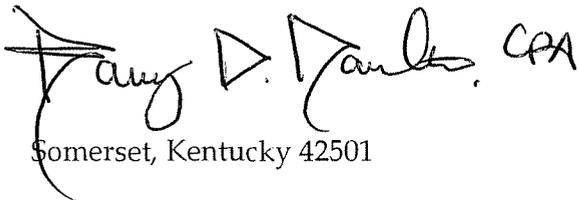
In planning and performing my audit of the financial statements of Bronston Water Association, Inc. for the year ended December 31, 2011, I considered the Association's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, I do not express an opinion on the effectiveness of the Association's internal control.

However, during my audit, I became aware of matters that are opportunities for strengthening internal control and operating efficiency. This letter does not affect my report dated December 21, 2012 on the financial statements of the Association.

Organizational Structure

The size of the Association's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Directors remain involved in the financial affairs of the Association to provide oversight and independent review functions.

This report is intended solely for the information and use of the Board, management and others within the entity and is not intended to be and should not be used by anyone other than those specified parties.


Somerset, Kentucky 42501