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**BRACKEN COUNTY WATER DISTRICT
BROOKSVILLE, KENTUCKY
AUDITED FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011**

PS

Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

2202 Old Main Street, Maysville, KY 41056

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Phone: (606) 759-0606

BRACKEN COUNTY WATER DISTRICT
BROOKSVILLE, KENTUCKY
Years Ended December 31, 2012 and 2011

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Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Bracken County Water District
Brooksville, Kentucky 41004

Report on the Financial Statements

I have audited the accompanying financial statements of Bracken County Water District as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

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Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bracken County Water District as of December 31, 2012 and 2011, 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.

Other Matters

Required Supplementary Information

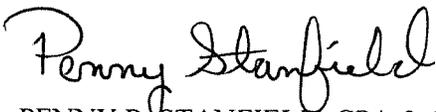
Management has omitted the management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is 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. My opinion on the basic financial statements is not affected by this missing information.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bracken County Water District's basic financial statements. The accompanying supplemental information on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated August 16, 2013, on my consideration of the Bracken County Water District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bracken County Water District's internal control over financial reporting and compliance.



PENNY R. STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

August 16, 2013

BRACKEN COUNTY WATER DISTRICT
STATEMENTS OF NET POSITION
PROPRIETARY FUND
December 31, 2012 and 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents - Unrestricted	\$ 673,056	\$ 419,130
Unbilled Revenue	78,833	41,341
Accounts Receivable - Customers, Net of Allowance for Uncollectible (\$5,028)	136,438	132,901
Inventory	49,104	44,594
Prepaid Insurance	13,123	12,401
Total Current Assets	950,554	650,367
Noncurrent assets:		
Cash and Cash Equivalents - Restricted	241,036	171,598
KRWFC & KIA Sinking Funds	131,694	198,403
Bond Issue Costs	101,723	104,819
Nondepreciable Capital Assets:		
Land	14,491	14,491
Construction in Progress	1,083,846	43,427
Depreciable Capital Assets:		
Property, Plant and Equipment	14,855,762	14,678,372
Less: Accumulated depreciation	(4,435,841)	(4,162,163)
Total Noncurrent Assets	11,992,711	11,048,947
TOTAL ASSETS	\$ 12,943,265	\$ 11,699,314
LIABILITIES		
Current liabilities:		
Accounts Payable	\$ 54,648	\$ 82,111
Customer Deposits	60,750	55,650
Accrued Wages and Vacation Pay	18,595	19,698
Taxes Payable	9,718	6,781
Accrued Interest	61,225	63,939
Current Portion of Long-Term Debt	195,306	247,443
Total Current Liabilities	400,242	475,622
Noncurrent Liabilities:		
Notes Payable, Net of Current Portion	4,663,138	4,272,350
TOTAL LIABILITIES	5,063,380	4,747,972
NET POSITION		
Net Investment in Capital Assets	6,659,814	6,054,334
Restricted for:		
Debt Service	191,028	239,480
Capital Projects and Replacement	118,153	71,255
Customer Deposits	63,549	59,266
Unrestricted	847,341	527,007
TOTAL NET POSITION	\$ 7,879,885	\$ 6,951,342

The notes to the 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, 2012 and 2011

	2012	2011
OPERATING REVENUES:		
Water Sales	\$ 1,509,121	\$ 1,429,350
Service Charges and Other Revenue	130,999	72,505
TOTAL OPERATING REVENUES	1,640,120	1,501,855
OPERATING EXPENSES:		
Water Purchased	356,443	366,164
Salaries	200,923	195,762
Employee Pensions and Benefits	24,333	48,422
Electricity	37,645	36,652
Maintenance	21,697	35,715
Materials and Supplies	49,793	58,867
Insurance	26,801	24,419
Advertising	488	480
Accounting Fees	8,820	9,500
Transportation	18,773	22,325
Water Analysis Fee	3,187	3,761
Regulatory Commission Expense	2,618	2,155
Depreciation and Amortization	276,773	264,150
Payroll Taxes	15,757	15,303
TOTAL OPERATING EXPENSES	1,044,051	1,083,675
OPERATING INCOME	596,069	418,180
NONOPERATING REVENUES:		
Customer Tap Fees	28,575	22,044
Interest Income	384	433
Interest Expense	(176,485)	(202,051)
TOTAL NONOPERATING REVENUES	(147,526)	(179,574)
Net Income Before Capital Contribution	448,543	238,606
Capital Contribution	480,000	-
CHANGE IN NET POSITION	928,543	238,606
NET POSITION- Beginning of year	6,951,342	6,712,736
NET POSITION- End of year	\$ 7,879,885	\$ 6,951,342

The notes to the 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, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Receipts from Customers	\$ 1,473,192	\$ 1,446,937
Cash Payments to Suppliers for Goods and Services	(556,022)	(529,333)
Cash Payments for Salaries and Benefits	(242,116)	(259,571)
Other Receipts (Payments)	130,999	72,505
	806,053	730,538
CASH FLOWS FROM INVESTING ACTIVITIES		
KIA Sinking Fund	66,495	58,071
KRWFC Sinking Fund	214	110
Interest Income	384	433
	67,093	58,614
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt	587,845	-
Principal Paid on Capital Debt	(249,194)	(263,614)
Purchases of Capital Assets	(1,217,809)	(110,459)
State Grants Received	480,000	-
Contributed Capital - Tap Fees	28,575	22,044
Interest Paid on Capital Debt	(179,199)	(204,660)
	(549,782)	(556,689)
NET INCREASE (DECREASE) IN CASH	323,364	232,463
Cash and Cash Equivalents - Beginning of Year	590,728	358,265
	\$ 914,092	\$ 590,728
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ 596,069	\$ 418,180
Adjustments to Reconcile Operating Income to		
Net Cash Used by Operating Activities:		
Depreciation Expense	273,676	261,053
Amortization Expense	3,097	3,097
Change in Assets and Liabilities:		
Accounts Receivable	(41,029)	19,178
Inventories	(4,510)	(3,769)
Prepaid Expense	(721)	(2,029)
Accounts Payable and Other Payables	(24,526)	36,503
Customer Deposits	5,100	(1,591)
Accrued Wages and Vacation	(1,103)	(84)
	\$ 806,053	\$ 730,538

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

**BRACKEN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bracken County Water District was created and organized as a public body corporate in Bracken County, Kentucky, pursuant to Chapter 74 of the Kentucky Revised Statutes, by the Bracken County Fiscal Court to operate a water distribution system. The District is regulated by the Kentucky Public Service Commission.

The Reporting Entity

The District, for financial purposes, includes all of the funds relevant to the operations of the District. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Bracken County Water District.

The financial statements of the District would include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of financial interdependency, selection of government authority, designation of management, ability to significantly influence operations, accountability of fiscal matters, scope of public service and financing relations. The entities included in the financial statements are the general operations of the District. Bracken County Water District No. 1 merged with Western Bracken County Water District effective December 27, 1995 by order of the Public Service Commission.

Based on the foregoing criteria there are no other organizations included in these financial statements.

The District, presented as an enterprise fund, does not apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or after November 30, 1989.

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

The accounts of the District are maintained on the accrual basis of accounting. The District's financial statements include the operations of all entities for which the District exercises oversight responsibility. Oversight responsibility includes, but is not limited to financial interdependency, selection of the governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Inventory

Inventory is valued at the lower of cost or market.

BRACKEN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets

Fixed assets purchased are capitalized at the time of purchase. Such assets are recorded at cost. Depreciation is applied on the straight-line method over the estimated useful life of the asset, using rates determined by reference to Utility Standards Rates (NARUC). Asset lives range from 75 years for system lines and plant, to 20 years for pumping equipment, 20 years for meters, and from 5 to 20 years for vehicles and office equipment. The provisions for depreciation in 2012 reflect those standard rates by asset class.

Unbilled Revenue

The District records revenue as billed to its customers on monthly meter reading cycle. At the end of each year, water service that has been rendered from the latest date of each meter reading to the year-end is unbilled.

Power Costs

The cost of power purchases for pumping water is charged to expense as used.

Income Tax Status

The District is a political subdivision created under Kentucky Revised Statutes 74.012, and as such, is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for income taxes.

Cash Flows

For purposes of the statement of cash flows, the District uses the direct method of reporting net cash flow from operating activities, and considers certificates of deposit with a maturity of six months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are legal limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

BRACKEN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

NOTE 2: CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash and cash equivalents consist of checking and savings accounts with local banks. The District does not have a deposit policy for custodial credit risk. As of December 31, 2012, \$734,014 of the bank balance was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank	\$734,014
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NOTE 3: LONG-TERM DEBT

On May 9, 1989, the Kentucky Infrastructure Authority made three loans to the Bracken County Water District. These loans retired the Farmers Home Administration Bonds, paid the bond interest from January 1 through May 9, 1989, and created three reserves at the Kentucky Infrastructure Authority (KIA). These loans were refinanced on September 8, 1993 at a lower rate of 5.38% to reduce net interest costs by \$134,853 over the life of the issue.

In 2004, the KIA restructured the 1989 loan by applying the reserve to be used for the final year of payment on the loan, in order to reduce the outstanding loan balance to \$200,000 and to adjust the interest rate to 3.00%. The effect of this adjustment, creating the KIA issue 2004 A/B was to apply \$194,447 of the debt service reserve, leaving \$61,354 in reserve, held by KIA, to be applied to the final year of the 2004 issue, which will mature in 2012.

In connection with two major construction projects, the District obtained new loans to pay for construction not otherwise covered by Federal or State grants or by local funds. On October 7, 2004, the District finalized a long-term loan with USDA Rural Development in the amount of \$980,000 for the Southwestern Project. On August 31, 2004, the District finalized a \$928,000 loan from KIA for the Berlin-Lenoxburg Project.

The Rural Development loan is for 40 years, 4.5%, principal payable on December 1 of each year and interest paid semi-annually. The KIA loan is for 20 years, 3.0%, principal and interest payable monthly.

The Delisle Curve and office building projects were funded by loans through the Kentucky Rural Water Finance Corporation (KRWFC). In April 2006, the District obtained short-term financing in the amount of \$3,085,000 to begin construction on these projects. In August 2007, bonds were issued in the amount of \$3,350,000 to payoff the short-term financing and for additional construction costs. The loan is for 20 years, 4.175% to 4.550%, principal and interest payments made monthly into the sinking fund at KRWFC.

On March 1, 2012, the District obtained two loans from Kentucky Infrastructure Authority (KIA) to commence construction on two projects. The first project is a line replacement project which was funded by Loan Fund C in the amount of \$621,000. The second project was for the Short Road improvement and upgrade project which was funded by Loan Fund B in the amount of \$475,000, of which 80% of the principal was forgiven. Both loans were financed at a 3% interest rate.

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2012 and 2011

NOTE 3: LONG-TERM DEBT (Continued)

The following is a summary of changes in long-term debt for the year ended December 31, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$791,334, 02-10 KIA For construction through December 31, 2003, loan maximum \$928,000, interest at 3.00%	\$ 663,793	\$ -	\$ 42,443	\$ 621,350
\$200,000, 2004 A/B KIA dated 08/31/04, due 08/31/12, payable monthly, principal in varying annual amounts, interest at 3.00%	75,000	-	75,000	-
\$980,000, 2004 Rural Development dated 10/07/04, due 2044, principal payable annually on Dec. 1 and interest payable semi-annually at 4.50%	901,000	-	-	901,000
\$3,350,000, Kentucky Rural Water Finance Corp. Series 2007 D, dated 07/30/07, principal payable annually, interest payable semi-annually at 4.175-4.55%	2,880,000	-	130,000	2,750,000
\$475,000 KIA (principal forgiven \$380,000) Loan #B10-10, dated 03/01/12 principal payable semi-annually, interest payable semi-annually at 3.00%	-	95,000	1,751	93,249
\$621,000, KIA Loan #C11-01, dated 03/01/12 payable monthly, principal in varying amounts, interest at 3.00%	-	492,845	-	492,845
	<u>4,519,793</u>	<u>587,845</u>	<u>249,194</u>	<u>4,858,444</u>
Less: Current Maturities	<u>247,443</u>			<u>195,306</u>
Totals	<u><u>\$4,272,350</u></u>			<u><u>\$4,663,138</u></u>

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

	<u>Principal</u>	<u>Interest</u>
2013	195,306	183,789
2014	225,749	194,261
2015	233,922	185,415
2016	241,162	176,267
2017	254,468	166,813
2018-2022	1,417,456	675,298
2023-2027	1,546,309	368,148
2028-2032	272,071	145,985
2033-2037	186,000	86,749
2038-2042	235,000	38,813
2043	51,000	4,453
	<u><u>\$4,858,444</u></u>	<u><u>\$2,225,991</u></u>

BRACKEN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

NOTE 4: RESERVES

The Bracken County Water District is required to comply with the KIA and Rural Development bond agreements as follows:

A. SINKING FUND

On or before the 20th day of each month and after the required payment to the Operation and Maintenance Fund Account, the District is required to set aside an amount into a special account known as the "Bracken County Water District Waterworks, Bond and Interest Sinking Fund". The amount to be set aside and paid into the Sinking Fund each month shall be sums equal to the following amounts:

- (1) A sum equal to one-sixth of the interest becoming due on the next succeeding interest due date, with respect to all outstanding Bond Issues.
- (2) A sum equal to one-twelfth (1/12) of the principal of all such bonds maturing on the next succeeding January 1.

The District had set aside \$191,028 at December 31, 2012 into the restricted account. Deposits were made to the sinking fund on a monthly basis as required in (1) and (2).

B. DEPRECIATION FUND

The District is required to deposit \$470 and \$310 for Rural Development and KIA each month into the Depreciation Fund account as well as the proceeds from the sale of any equipment no longer usable or needed, fees or charges collected from potential customers to aid in the financing of the cost of extensions, additions and/or improvements to the project, plus the proceeds of any property damage insurance not immediately used to replace damaged or destroyed property. Monies in the Depreciation Fund shall be available and shall be withdrawn and used, upon appropriate certification to Rural Development and KIA, for the purpose of paying the cost of constructing replacements, extensions, additions and/or improvements to the project. Whenever the balance in the Depreciation Fund shall equal \$56,400 (\$37,000 for KIA) the monthly payments may be discontinued, or by the order of the governing body of the District, may be diverted into the Sinking Fund Account to be held as a part of the Sinking Fund Reserve and may then be used to redeem Bonds; however, the payments into the Depreciation Fund must be resumed whenever necessary to restore the balance. The District had set aside \$80,352 at December 31, 2012 into restricted accounts.

BRACKEN COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
For The Years Ended December 31, 2012 and 2011

NOTE 5: FIXED ASSETS

Capital asset activity for the fiscal year ended December 31, 2012 was as follows:

Business-Type Activities	Balance Jan. 1, 2012	Additions	Deductions	Balance Dec. 31, 2012
Cost:				
Land	\$ 14,491	\$ -	\$ -	\$ 14,491
Plant in Service	14,268,214	103,044	-	14,371,258
Other Depreciable Assets	410,158	74,346	-	484,504
Construction in Progress	43,427	1,090,944	50,525	1,083,846
Totals at historical cost	<u>14,736,290</u>	<u>1,268,334</u>	<u>50,525</u>	<u>15,954,099</u>
Less accumulated depreciation:				
Land & Land Rights	835	-	-	835
Plant in Service	3,909,281	219,119	-	4,128,400
Other Depreciable Assets	252,047	54,559	-	306,606
Total accumulated depreciation	<u>4,162,163</u>	<u>273,678</u>	<u>-</u>	<u>4,435,841</u>
Business-Type Activities Capital Assets - Net	<u>\$ 10,574,127</u>	<u>\$ 994,656</u>	<u>\$ 50,525</u>	<u>\$ 11,518,258</u>

Capital asset activity for the fiscal year ended December 31, 2011 was as follows:

Business-Type Activities	Balance Jan. 1, 2011	Additions	Deductions	Balance Dec. 31, 2011
Cost:				
Land	\$ 14,491	\$ -	\$ -	\$ 14,491
Plant in Service	14,202,537	65,677	-	14,268,214
Other Depreciable Assets	408,803	1,355	-	410,158
Construction in Progress	-	43,427	-	43,427
Totals at historical cost	<u>14,625,831</u>	<u>110,459</u>	<u>-</u>	<u>14,736,290</u>
Less accumulated depreciation:				
Land & Land Rights	835	-	-	835
Plant in Service	3,677,337	215,997	-	3,893,334
Other Depreciable Assets	222,938	45,056	-	267,994
Total accumulated depreciation	<u>3,901,110</u>	<u>261,053</u>	<u>-</u>	<u>4,162,163</u>
Business-Type Activities Capital Assets - Net	<u>\$ 10,724,721</u>	<u>\$ (150,594)</u>	<u>\$ -</u>	<u>\$ 10,574,127</u>

BRACKEN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2012 and 2011

NOTE 6: ECONOMIC DEPENDENCY

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

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of losses related to torts - theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District carries commercial insurance coverage for the risks to the extent deemed prudent by the District's managements.

NOTE 8: CONSTRUCTION COMMITMENT

The District has commenced construction on two projects, a system upgrade project (\$621,000) and system improvement and upgrade project (\$475,000). These projects are funded by KIA loans. The estimated costs and funding sources for the projects are as follows:

KIA – Fund C Loan	\$ 621,000	\$ -	
KIA – Fund B Loan		475,000	
	\$ 621,000	\$ 475,000	

Cost of the Project is estimated as follows:

Engineering	\$ 48,200	\$ 67,000	
Construction	389,250	350,000	
Other Costs	23,000	17,250	
Contingency	160,550	40,750	
	\$ 621,000	\$ 475,000	

NOTE 9: CHANGE IN ACCOUNTING PRINCIPLE

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

SUPPLEMENTAL INFORMATION

**BRACKEN COUNTY WATER DISTRICT
 SUPPLEMENTARY INFORMATION REQUIRED BY RURAL DEVELOPMENT
 December 31, 2012**

Schedule of Insurance in Force

<u>Insurance Coverage</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
General Liability	\$3,000,000	07-01-15
Property - Building & Contents	\$4,649,400	07-01-15
Equipment & Vehicles	\$356,669	07-01-15
Treasurer and Commissioners	\$300,000 and \$10,000	04-25-13
Workers Compensation	Statutory	07-01-13

Aged Accounts Receivable

A detailed schedule of aged accounts receivable is prepared on a monthly basis. At December 31, 2012, accounts receivable were aged as follows:

	<u>Number Of Accounts</u>	<u>Amount</u>
Current	2,404	\$135,723
Over 30 Days	35	729
Over 60 Days	-	-
Over 90 Days	149	5,014
Total	<u>2,588</u>	<u>\$141,466</u>

During 2012, the District carried a reserve for possible uncollectible accounts of \$5,028. Accounts in arrears have been collected or are covered by deposits.

The District had a total of 2,497 customers at December 31, 2012. Of these customers, 2,476 were residential, 19 were commercial, and 2 were resale.



Penny R. Stanfield, CPA & Co., PLLC

Certified Public Accountant

**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 41004

I have audited, 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, the financial statements of Bracken County Water District as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Bracken County Water District's basic financial statements, and have issued my report thereon dated August 16, 2013.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Bracken County Water District's internal control over financial reporting (internal control) to determine the auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bracken County Water District's internal control. Accordingly, I do not express an opinion on the effectiveness of Bracken County Water 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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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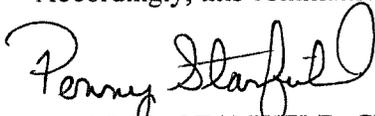
Members American Institute of Certified Public Accountants and Kentucky Society of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bracken County Water District'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.



PENNY R. STANFIELD, CPA & CO., PLLC
Maysville, Kentucky

August 16, 2013