

BRONSTON WATER ASSOCIATION, INC.

**Audited Financial Statements
for the years ended December 31, 2013 and 2012**



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**

BRONSTON WATER ASSOCIATION, INC.

**Audited Financial Statements
for the years ended December 31, 2013 and 2012**

| Contents | <u>Pages</u> |
|--|---------------------|
| Independent Auditor's Report | 1 |
| Financial Statements: | |
| Statements of Net Assets | 2 |
| Statements of Activities | 3 |
| Statements of Cash Flows | 4 |
| Notes to Financial Statements | 5-9 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 10-11 |
| Management Letter | 12 |

BARRY D. DAULTON, CPA, PSC
Certified Public Accountant
423 East Mount Vernon Street
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 financial statements of Bronston Water Association, Inc. (a non-profit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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 an opinion 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "Craig D. Danks, CPA". The signature is written in a cursive style with a large initial "C".

Somerset, Kentucky
November 14, 2014

Bronston Water Association, Inc.
Statements of Net Assets
December 31, 2013 and 2012

| | 2013 | 2012 |
|--------------------------------------|--------------|--------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 212,614 | \$ 120,586 |
| Short-term cash investments | 450,940 | 440,982 |
| Accounts receivable | 69,208 | 100,090 |
| Prepaid expenses | 1,405 | 1,109 |
| Total current assets | 734,167 | 662,767 |
| Property, Plant and Equipment | | |
| Construction in progress | - | - |
| Property, plant and equipment | 6,323,441 | 6,309,001 |
| Accumulated depreciation | (2,197,997) | (2,007,546) |
| Net property, plant and equipment | 4,125,444 | 4,301,455 |
| Other Assets | | |
| Construction period interest | 17,402 | 17,402 |
| Accumulated amortization | (4,350) | (3,915) |
| Restricted cash accounts | 118,158 | 116,085 |
| Total other assets | 131,210 | 129,572 |
| Total Assets | \$ 4,990,821 | \$ 5,093,794 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 20,122 | \$ 19,075 |
| Payroll and related withholdings | 3,026 | 2,197 |
| Accrued interest payable | 37,897 | 38,412 |
| Other accrued liabilities | 13,846 | 16,803 |
| Customer deposits | 17,488 | 26,206 |
| Current portion of long-term debt | 24,882 | 23,667 |
| Total current liabilities | 117,261 | 126,360 |
| Long-term Liabilities | | |
| Long-term debt | 1,649,483 | 1,673,513 |
| Net of current portion | (24,882) | (23,667) |
| Total long-term liabilities | 1,624,601 | 1,649,846 |
| Total Liabilities | 1,741,862 | 1,776,206 |
| Net Assets | | |
| Contributions in aid of construction | 3,826,114 | 3,811,048 |
| Unrestricted net assets | (577,155) | (493,470) |
| Total net assets | 3,248,959 | 3,317,578 |
| Total Liabilities and Net Assets | \$ 4,990,821 | \$ 5,093,784 |

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

Bronston Water Association, Inc.
Statements of Activities
For the years ended December 31, 2013 and 2012

| | 2013 | 2012 |
|---|--------------|--------------|
| Operating revenues | | |
| Sales to customers | \$ 623,928 | \$ 645,225 |
| Other operating revenues | 7,046 | 5,315 |
| | 630,974 | 650,540 |
| Cost of water sold | | |
| Water purchases | 222,550 | 217,669 |
| Water testing | - | - |
| Salaries and wages | 92,399 | 89,087 |
| Materials and supplies | 39,639 | 84,753 |
| Depreciation | 190,451 | 185,526 |
| Amortization | 435 | 435 |
| Total cost of water sold | 545,474 | 577,470 |
| Operating profit | 85,500 | 73,070 |
| Support and administrative expenses | | |
| Directors' fees | 8,400 | 8,200 |
| Payroll taxes | 8,282 | 5,901 |
| Employee benefits | 5,864 | 6,315 |
| Contractual services | 13,950 | 11,500 |
| Insurance | 12,524 | 13,141 |
| Utilities and telephone | 10,996 | 10,404 |
| Office expense | 18,379 | 35,011 |
| Transportation | 12,880 | 10,875 |
| PSC penalties and assessments | 1,161 | 1,129 |
| Bad debts expense | 1,391 | |
| Total support and administrative expenses | 93,827 | 102,476 |
| Change in net assets before other income and expenses | (8,327) | (29,406) |
| Other income and expenses | | |
| Other income | 2,947 | - |
| Interest income | 1,115 | 4,710 |
| Interest expense | (62,013) | (62,406) |
| Total other income and expenses | (57,951) | (57,696) |
| Change in unrestricted net assets | (66,278) | (87,102) |
| Unrestricted net assets beginning of year | (493,470) | (406,368) |
| Unrestricted net assets end of year | \$ (559,748) | \$ (493,470) |

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

Bronston Water Association, Inc.
Statements of Cash Flows
For the years ended December 31, 2013 and 2012

| | 2013 | 2012 |
|---|-------------|-------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ (66,278) | \$ (87,102) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 190,886 | 185,961 |
| (Increase) decrease in operating assets | | |
| Accounts receivable | 30,882 | (9,232) |
| Prepaid insurance | (296) | 261 |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | 1,047 | (1,144) |
| Accrued withholdings | 829 | 2,216 |
| Accrued interest | (515) | (463) |
| Other current liabilities | (2,104) | 3,360 |
| Customer deposits | - | 836 |
| | 154,451 | 94,693 |
| Cash flows from investing activities | | |
| Short-term cash investments, net | (9,958) | (63,438) |
| Payments for property, plan and equipment (net) | (14,440) | (86,912) |
| | (24,398) | (150,350) |
| Cash flows from financing activities | | |
| Principal reduction on long-term debt | (24,894) | (15,937) |
| Contributions in aid of construction | 8,566 | (7,449) |
| Tap-on fees received, net | 6,500 | 9,450 |
| | (9,828) | (13,936) |
| Net increase (decrease) in cash and cash equivalents | 120,225 | (69,593) |
| Cash and cash equivalents beginning of year | 236,671 | 306,264 |
| Cash and cash equivalents end of year | \$ 356,896 | \$ 236,671 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for interest | \$ 62,013 | \$ 62,869 |

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

Bronston Water Association, Inc.
Notes to Financial Statements
For the years ended December 31, 2013 and 2012

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 on-going 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, 2013 and 2012

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.

The Association implemented a new billing system during the year ended December 31, 2013. The new system automatically removes customer accounts when they become 90 days in arrears. This implementation results in fewer accounts receivable at December 31, 2013. Any accounts determined to be uncollectible are recorded as revenue in the event they are eventually paid by the customer. It has not been the Association's policy to maintain a reserve for doubtful accounts based on collection history and the comparatively small balance of accounts in arrears.

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. In the event a customer account becomes uncollectible, the Association will apply the deposit against the outstanding balance.

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, 2013 or 2012.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2013 and 2012

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, and those differences could be material.

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, 2013, the Association had cash and short-term cash investments with a carrying value of \$775,980. 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, \$375 and \$485 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, \$45,000 and \$38,000, 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, 2013, these accounts were sufficiently funded.

Bronston Water Association, Inc.
Notes to Financial Statements, continued
For the years ended December 31, 2013 and 2012

5. Property, Plant and Equipment

Property, plant and equipment consist of the following:

| | <u>2013</u> | <u>2012</u> |
|--------------------------------------|---------------------|---------------------|
| Land and land rights | \$ 132,500 | \$ 132,500 |
| Transmission and distribution system | 5,619,431 | 5,619,431 |
| Meters and installations | 479,772 | 465,332 |
| Office building and equipment | 91,738 | 91,738 |
| | <u>6,323,441</u> | <u>6,309,001</u> |
| Accumulated depreciation | <u>(2,197,997)</u> | <u>(2,007,546)</u> |
| Total Property, Plant and Equipment | <u>\$ 4,125,444</u> | <u>\$ 4,301,455</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, 2013 and 2012

6. Long-Term Debt, concluded

Scheduled maturities of long-term debt are as follows:

| | <u>Principal</u> |
|--------------|---------------------|
| 2014 | 24,882 |
| 2015 | 25,793 |
| 2016 | 26,739 |
| 2017 | 27,720 |
| 2018 | 28,740 |
| future years | 1,515,609 |
| | <u>\$ 1,649,483</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

Certified Public Accountant
423 East Mount Vernon Street
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, 2013 and 2012, and have issued my report thereon dated November 14, 2014. 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 effective-ness 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

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

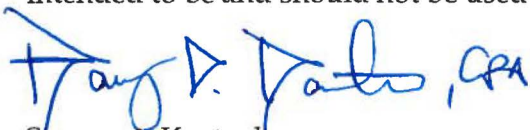
Due to the small size of the staff, there is inadequate segregation of duties in the areas of initiating, approving and recording transactions.

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 November 14, 2014.

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
November 14, 2014

BARRY D. DAULTON, CPA, PSC

Certified Public Accountant
423 East Mount Vernon Street
P.O. Box 1424
Somerset, Kentucky 42502
(606) 679-9344

November 14, 2014

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, 2013, 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 November 14, 2014 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